1989 ONTARIO BUDGET

ROBERT F. NIXON · TREASURER OF ONTARIO

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1989
Ontario
Budget

Presented to the Members of
the Legislative Assembly of Ontario by
Robert F. Nixon
Treasurer of Ontario and Minister of Economics
May 17, 1989

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1989 Ontario Budget

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1989 Budget Summary

Fiscal Summary
($ billion)

	Interim 1988-89	Budget Plan 1989-90	Per Cent Change
Revenue	37.2	40.7	9.4
Operating Expenditure	35.5	38.1	7.0
Operating Surplus	1.7	2.6	
Capital Investment	2.8	3.2	
Capital advanced in respect of 1989-90	0.4		
Deficit to Finance Capital	1.5	0.6	

Economic Summary
($ billion)

	1988	1989	Per Cent Change
Gross Domestic Product			
- Nominal	247	267	8.5
- Real (1981 Base)	178	183	2.8
Employment (000s)	4,862	4,952	1.9
Personal Income	204	221	8.5

1989 Ontario Budget

Introduction

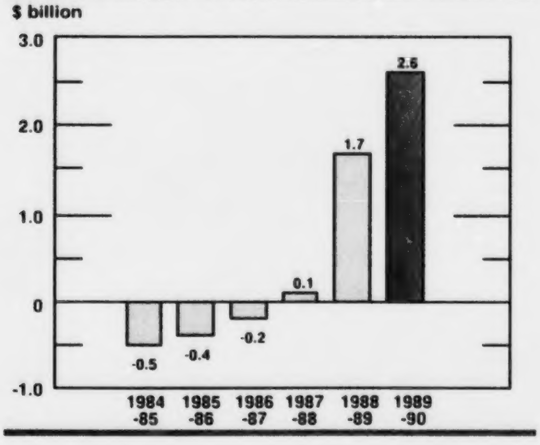
Ontario's 1989 Budget is an expression of the Government's determination to see its commitments met and its agenda for reform implemented.

Each of my previous budgets included substantial improvements to Ontario's fiscal position. Continuing that policy, this Budget produces the largest operating surplus in Ontario's history -- $2.6 billion. The 1989-90 deficit has been cut to $577 million, its lowest level in 15 years, and a reduction of $911 million from last year.

Initiatives in this Budget will:

- keep Ontario competitive;
- launch major investments in transportation;
- support a cleaner, healthier environment;
- reform Ontario's social assistance;
- fund innovations in education; and
- restructure and refinance health care.

Ontario's Operating Position 1984-85 to 1989-90



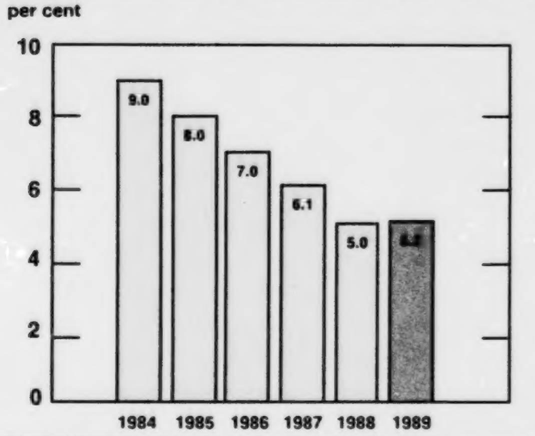
These initiatives support the reform agenda set by the Government under the leadership of Premier David Peterson.

The Ontario Economy

For six consecutive years, real growth in Ontario exceeded four per cent, making the current economic expansion the longest and strongest since the 1960s. In 1988, real output increased by 4.9 per cent, once again outpacing growth in the United States and Europe. Among major industrialized countries, only Japan recorded stronger growth.

In 1989, real output is expected to expand by 2.8 per cent, led by strong growth in business investment. Businesses intend to increase spending on plant and equipment by 11.7 per cent this year. Investment in the manufacturing sector will be particularly strong, with spending on machinery and equipment alone to reach $8 billion, an 18.7 per cent increase from 1988. With higher interest rates, consumers are expected to increase their savings and slow the pace of credit expansion. Income growth will contribute to solid but more moderate growth in spending on housing, consumer goods and services. With continuing job creation, the unemployment rate will average 5.2 per cent. Further details on Ontario's economic outlook are provided in Budget Paper B, which updates the Economic Outlook and Fiscal Review I presented to the Legislature on December 8, 1988.

Unemployment Rate
1984 to 1989



Keeping Ontario Competitive

Faced with increasing international competition under the Free Trade Agreement and a stronger European Economic Community, Ontario must secure and support its competitive position to keep the economy growing and to maintain our quality of life.

Now completing its third year, the Premier's Council on Technology has recommended measures to promote the development of new industrial processes and encourage the growth of innovative companies. This year, over $132 million will be provided through the $1 billion, ten-year Technology Fund to stimulate research, development and diffusion of new industrial technologies. Included in this amount is $47 million in tax support available through the Research and Development Super Allowance. Over $40 million will be allocated this year to Ontario's Centres of Excellence to support research of an international calibre. The University Research Incentive Fund will be extended to provide $25 million over the next three years in support of joint research by universities and industry.

The Council has recommended that the Government encourage venture capital investment. To support the growth of small and medium-sized companies, Ontario will establish the Growth Ventures program. Over the next five years, this program will provide up to $100 million in loan guarantees to venture capital companies investing in eligible businesses.

The Council has also recommended that the Government share risks with companies on the threshold of becoming multinationals. Risk-sharing support for emerging threshold firms will be provided, with extensive private sector involvement, under the guidance of the Council.

Ontario's ability to trade and compete in a global economy will be reinforced by initiatives to strengthen exports and build marketing skills. The Province will commit an additional $10 million on a full-year basis for trade-related initiatives, including targeted marketing assistance and investment promotion in co-operation with Ontario's trade offices abroad.

Steps will be taken to encourage companies to plan strategically for developments in the United States and in Europe and to penetrate Pacific Rim markets. The Government will also provide financial support for research and strategic policy analysis of international trade and investment issues at the University of Toronto's Centre for International Studies, which will complement the Ontario Centre for International Business at York University.

Industries require a skilled workforce to take advantage of the efficiency offered by new technologies. Ontario's workers need updated skills to secure well-paying jobs and to cope in a world of technological change and industrial restructuring. There is a greater need to retrain and redeploy experienced workers as the number of young people entering the workforce declines. This Budget provides additional funding of $10 million to address labour market needs.

Negotiations with the federal government are underway for a cost-sharing program to provide extended income support to laid-off workers over 55 years of age. Ontario is prepared to commit up to $9 million for the first year of an agreement under the Program for Older Worker Adjustment. In the interim, the Ministry of Skills Development will extend eligibility for the Transitions Program to provide retraining assistance to older workers upon notification of lay-off.

The United Nations has declared next year International Literacy Year. Ontario will increase funding for literacy programs by $5 million for 1990, raising the Province's spending on adult literacy to $55 million.

Post-secondary educational institutions play a key role in keeping Ontario competitive. As I announced in December, the Government's operating support for universities and colleges in 1989-90 will increase by 7.5 per cent and 5.6 per cent respectively. These commitments stand in spite of the reductions in transfers for post-secondary education announced by the federal government.

The Ontario Student Assistance Program will provide $196 million in 1989-90 to help students attend post-secondary institutions. This is an increase of 55 per cent since 1984-85.

In 1989-90, $88 million will be provided to universities through the Accessibility Envelope for enrolment growth. For 1990-91 and beyond, a more permanent approach to allocating university operating grants will be introduced which will take into account recent enrolment growth and will include funding recognition for the flow-through of these students.

The 1988 Budget announced a $440 million post-secondary capital program. The $110 million in Provincial funding for 1990-91 projects will be advanced this fiscal year.

Junior exploration companies and individual prospectors play a vital role in the future of Ontario's mining industry. In order to offset reduced federal support for mineral exploration, $5 million will be allocated to the Ontario Prospectors' Assistance Program, the Ontario Mineral Incentive Program, and other programs for these groups.

In addition, $34 million will be provided in the next two years to assist Ontario's film industry, including assistance through the Ontario Film Investment Program.

Transportation Investment

Ontario's efficient system of roads, highways and transit is essential to the economy. Spending on the transportation system has increased by more than 30 per cent since 1984-85 and totalled $2 billion in 1988-89. However, sustained economic growth will require enriched funding to reduce transportation congestion and improve access to growing markets.

The Government is committing an additional $2 billion over five years to the new Transportation Capital Program. This program will support highway capital projects, major municipal roads and transit projects, and additional GO Transit service.

Included are improvements to Northern Highways 69, 17 and 11, expansion of and accelerated construction on Highways 401, 403, 407, and 410, the Queen Elizabeth Way in the Niagara region and Highway 416 in Eastern Ontario. Additional GO Transit service will be provided to Milton, Georgetown, Richmond Hill and Stouffville, and service will be extended to Oshawa. A new ferry will be put in service to Pelee Island. The federal government has been asked to construct the necessary docking facilities.

This program includes improved highway access to Mount Hope Airport near Hamilton. Federal assistance will be sought in the financing of this project. The Government is prepared to share the cost of providing improved transit access to Pearson International Airport. The details of this project await the federal government's plan for the airport.

To complement the provincial highway improvements, the Transportation Capital Program includes $200 million over four years, beginning in 1990-91, for major municipal arterial roads and highway connecting links.

Provincial capital spending on municipal transit systems will increase by $44 million, 29 per cent, to approximately $200 million this year. Specific projects include capacity improvements to the Yonge Street subway line, station upgrading at Yonge and Sheppard, ongoing construction of the Transitway in Ottawa-Carleton and the Harbourfront Light Rapid Transit. Operating support for municipal transit will total $196 million in 1989-90.

The provision of public infrastructure frequently results in substantial benefits to specific groups in Ontario. Therefore, the Province is adopting a strategy by which those who benefit significantly and directly from the provision of new public infrastructure will be required to make a greater contribution to the cost of that infrastructure.

In this connection, commercial property owners in the Greater Toronto Area (GTA), which comprises municipalities in the regions of Halton, Durham, Peel, York and Metropolitan Toronto, realize considerable economic benefit from Provincial expenditures on infrastructure. These benefits include capital gains from land and building value increases, greater income from tenants who seek prime locations, and ready access for customers, suppliers and employees who rely on an excellent transportation network.

Therefore, beginning in January 1990, owners of large commercial structures and associated parking with gross areas in excess of 200,000 square feet, and all commercial parking lots and parking garages within the GTA, will be required to pay a Commercial Concentration Levy of $1.00 per square foot per year. This charge will be paid semi-annually and will raise $62 million this fiscal year.

To provide additional funding for transportation projects across the province, the rate of tax on gasoline and diesel fuel will be increased immediately by one cent per litre. Effective January 1, 1990, the tax on gasoline will increase by one additional cent per litre. These and other road-related motive fuel measures will raise approximately $140 million this fiscal year.

Passenger motor vehicle registration fees will be increased from $54 to $66 in Southern Ontario and from $27 to $33 in Northern Ontario. To help meet critical transportation infrastructure needs in the GTA, these fees will be increased by a further $24 for a total annual fee of $90 for residents in the GTA. These measures will raise $54 million in 1989-90.

Environmental Initiatives

In 1989-90, capital outlays by the Ministry of the Environment will increase by 40 per cent over last year, including a doubling, to $46 million, of advances for provincial water and sewage projects for municipalities. Total funding provided to the Ministry of the Environment will reach $528 million, an increase of 70.7 per cent since 1984-85.

To encourage leadership in the development of new technologies and industries to meet the demands of the industrial world in overcoming environmentally-damaging production practices, the Government will introduce a new Environmental Technologies Program. Under the guidance of Ontario's Round Table on the Environment and the Economy, this program will assist companies in the research and development of environmentally sound production machinery and processes. Ontario will allocate $30 million for the Environmental Technologies Program over the next five years.

The Province will make available $300 million in loan guarantees under the Loans for Environmental Defense (LEND) initiative. This seven-year program will provide loan guarantees to eligible businesses installing vital pollution abatement equipment.

To help businesses achieve cleaner products and processes while sustaining competitiveness, the Ontario corporate income tax current cost adjustment will be extended to include pollution control equipment at a cost of $3 million in 1989-90.

Since 1985, the Ministry of Energy has provided companies with grants to undertake research and develop energy-saving technology in their plants through its Enersearch Program. For 1989-90, the Government will commit $3 million to extend this program.

To support the Government's environmental programs, the following measures will be introduced. A tax of $5 will be charged on the purchase of each new tire. The tire tax will help fund efforts to support recycling and environmentally sound disposal.

A tax will be levied on new, fuel-inefficient cars sold in Ontario. This tax will increase based on a car's fuel inefficiency.

Pesticides and fertilizers will be subject to the Retail Sales Tax. Those used in agricultural production will be exempt from the tax.

A disposal charge of five cents will be levied on the purchase of each liquor, wine or beer container for which there is no deposit or recycling system. This charge will help fund the Province's waste reduction and recycling initiatives.

These measures will yield a total of $54 million this year.

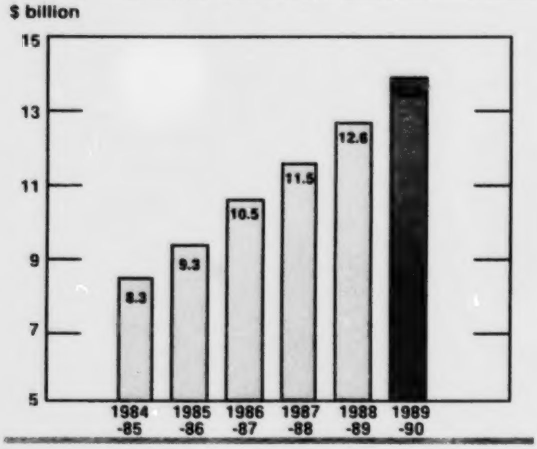
The Government has allocated $212 million to maintain and renew Ontario's forests. Included in this figure is $15 million representing Ontario's share of the Canada-Ontario Forest Resource Development Agreement.

In addition, pending results from efforts to negotiate an end to the federal softwood lumber export tax, Ontario will use its revenues from the tax to reinforce forest management in the province. The additional $18 million for forest management in 1989-90 will bring total spending to $230 million, an increase of 50 per cent since 1984-85.

Health Care Financing Reform

The fundamental principle of our health care system is to provide all Ontarians with universal access to quality health care.

Ministry of Health Expenditures 1984-85 to 1989-90



Ministry of Health expenditures will total $13.9 billion in 1989-90, an increase of 10.7 per cent over 1988-89. As a share of total Provincial spending, the Ministry of Health accounts for 33 per cent, up from 28 per cent a decade ago.

The Ministry of Health is concentrating its efforts on improving the quality, availability and efficiency of health services. As Treasurer, I am committed to securing adequate revenues to fund these services.

The Social Assistance Review Committee indicated that it believes the elimination of OHIP premiums "is essential and would greatly improve access to health care, particularly preventive health care, for many low-income people". Premiums have been frozen since 1985 and premium assistance has been enriched annually. Premium revenue has fallen below 13 per cent of the total cost of health care.

It is a special pleasure for me to announce to the House that OHIP premiums will be eliminated as of January 1, 1990. This action keeps the promise made in 1985.

This is a $1 billion benefit to individuals and families in 1990. They will realize $550 million in premium savings and $450 million in personal income tax reductions from the elimination of personal income tax on employees' taxable benefits.

Responsible budgeting requires that the financing of health care be on a solid foundation. The federal government has weakened that foundation through a reduction in its support for Established Programs Financing by a total of approximately $3 billion over the past three years.

A new Employer Health Levy will, therefore, be introduced January 1, 1990. The new charge will be 1.95 per cent of payroll. In recognition of their unique circumstance, employers with small payrolls will be given the advantage of a special half-rate levy. This measure will ensure that all employers contribute a share of the financing of health care, a more reasonable approach than the current patchwork that has many employers paying all premiums for their employees and others contributing nothing at all.

Historically, the funding for health care has been shared by people and business. Each realizes benefits from Ontario's universal health care system. To maintain balance in the funding of health care, the rate of personal income tax will be increased by one percentage point, beginning January 1, 1990.

At the same time, an additional 50,000 people will benefit from an enrichment to the Ontario Tax Reduction Program. This means that, in total, 365,000 low-income individuals who are liable for basic federal personal income tax will pay no Ontario personal income tax and 195,000 others will benefit from reduced personal income tax.

The Government's priorities for health care will emphasize community-based services and health promotion. The Premier's Council on Health Strategy recently recommended health goals for Ontario. The Government has adopted these goals in setting its agenda for health.

Funding for community and personal health programs, including such services as community mental health, public health, emergency health services and assistive devices, will total $1.3 billion in 1989-90. This funding includes:

- $349 million for Home Care Assistance, an increase of $70 million or 24.9 per cent;
- $108 million for Community Mental Health Programs, an increase of 30.1 per cent; and
- an increase of 17.8 per cent for Alcohol and Drug Dependency Programs to $43 million.

Provincial support for the operation of hospitals will increase by 8.3 per cent to $6 billion in 1989-90. This level of funding will address specialty care needs in areas such as cancer care, cardiovascular services, dialysis, and maternal and infant health.

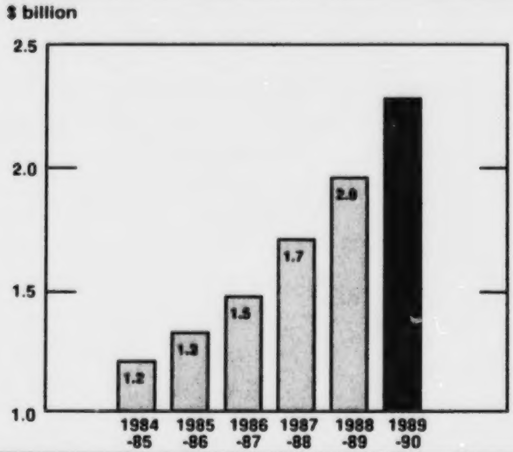
The Ministry of Health is working with hospitals to develop a new, equitable funding system that will enable hospitals to operate within their budgets. To promote better management, monitoring and planning of health care in Ontario, the Ministry of Health is implementing a new computer system over the next five years. Individual Health Service Numbers and cards will be issued to all Ontarians.

Social Assistance Reform

One of the fastest growing areas of Provincial spending is social assistance, which has increased by an average of 12.6 per cent annually since 1984-85. Over the same period, benefit levels on average increased by 37.9 per cent in total.

Even though the Ontario economy is in its seventh year of growth, the number of social assistance beneficiaries has grown by an average of 4.6 per cent each year, compared to Ontario's population growth of 1.3 per cent annually.

Expenditures on Social Assistance Benefits, 1984-85 to 1989-90



Ontario now provides among the highest levels of social assistance benefits in Canada. For example, Ontario provides the highest level of benefits for single parents and disabled individuals. The Government is committed to helping recipients attain greater economic self-sufficiency and, therefore, has decided to strengthen social assistance.

The Ministry of Community and Social Services will implement changes that focus on improvements to benefits for families and children, and that provide all recipients with greater opportunities for independence. These changes include increased benefits for children, redesigned and enriched shelter benefits, improved employment support programs, and removal of barriers which serve as disincentives to work.

In addition, social assistance benefits will be increased on average by six per cent on January 1, 1990.

With these measures, the Government will increase support for social assistance recipients by $415 million on a full-year basis. In 1989-90, Ontario social assistance benefits will total $2.3 billion, an increase of 92 per cent since 1984-85. See Budget Paper D for additional background information.

These reforms represent a major economic as well as social investment. The Minister of Community and Social Services and I have agreed that during the implementation of these reforms we will provide for an independent review of their effectiveness.

Measures for Low-Income Persons

The elimination of OHIP premiums is a major benefit to low-income individuals and families. A family previously paying full premiums will realize an annual saving of $714.

In addition to these initiatives, I am announcing an increase in the minimum wage from $4.75 to $5.00 per hour to take effect October 1, 1989.

In support of recommendations by the Standing Committee on Finance and Economic Affairs, an additional $55 million will be provided to improve the quality of services in agencies providing visiting homemaker services, attendant care services, as well as services for young offenders, the developmentally handicapped and victims of family violence. This will be accomplished through adjustments to salaries and benefits for lower-paid staff in these social service agencies.

Housing Programs

The Ontario Home Ownership Savings Plan (OHOSP), announced last year, attracted 30,000 depositors. Effective immediately, first-time home buyers eligible for OHOSP credits will be able to obtain a full refund of the Land Transfer Tax for homes priced up to $150,000 and a partial refund for homes priced up to $200,000. On a full-year basis, this program will provide $10 million in refunds.

The $2 billion in Canada Pension Plan (CPP) funds made available in the 1988 Budget for the Homes Now program has been fully committed. To further assist the non-profit sector with lower-cost mortgage financing, additional funds will be made available to bring the total commitment to $3 billion. A further $90 million will be provided annually to support the operation of the non-profit housing units made possible by this lower-cost mortgage financing.

This Budget's infrastructure initiatives will greatly assist in accommodating growth by reducing impediments to the development of land for housing. In addition, the Government is working closely with municipalities and the building industry to streamline the planning and development approval processes.

Reflecting the Government's many affordable housing initiatives, Ministry of Housing expenditures will reach $537 million in 1989-90, an increase of 28 per cent over the past year.

The shelter subsidy program available to individuals and families receiving social assistance will be redesigned and enriched to provide additional assistance to those most in need.

Assistance for Disabled Persons

The Government is committed to assisting disabled citizens to participate fully in the economic and social activities of this province. Over the next two years, additional funding of $10 million will be made available for the Ontario Home Renewal Program for Disabled Persons. This program provides interest-free loans for special modifications to homes.

A five-year, $38 million initiative to provide disabled persons barrier-free access to all Ontario Government buildings will be introduced. The Budget also allocates an additional $5 million in 1989-90 to fulfil the Government's commitment to improve transportation services for seniors and disabled people throughout the province.

Safe and Secure Communities

I am announcing additional funding for a number of measures contained in the Throne Speech to provide safe and secure communities.

The extent to which illegal drugs have affected the lives of the people of this province was identified by the Task Force on Illegal Drug Use in Ontario chaired by Ken Black, MPP. An additional $37 million will be provided over two years for a wide range of activities including community based initiatives, drug abuse rehabilitation and increased law enforcement.

The Government will allocate an additional $12 million to assist with reform of the court system and $10 million to fund security and other renovations of court houses across the province.

For 1989-90, Ontario's contribution to the Legal Aid Plan will be increased by 25 per cent to $123 million to ensure that low-income individuals have access to advice and legal representation. In addition, $2.5 million will be provided to expand the number of community legal aid clinics.

The Government is responding to the recommendations of the Task Force on Race Relations with $12 million over two years to promote racial equality in police employment practices and greater access to services, and to improve the relationship between the police and the community.

The Government will add $7.8 million to expand programs that prevent violence against women and children and to provide additional support to victims.

Local Government

Education Innovations

The Throne Speech contained significant measures to improve the quality of education in Ontario. This Budget funds the first-year costs of initiatives that secure future opportunities for all our children and excellence in education from junior and senior kindergarten through secondary school.

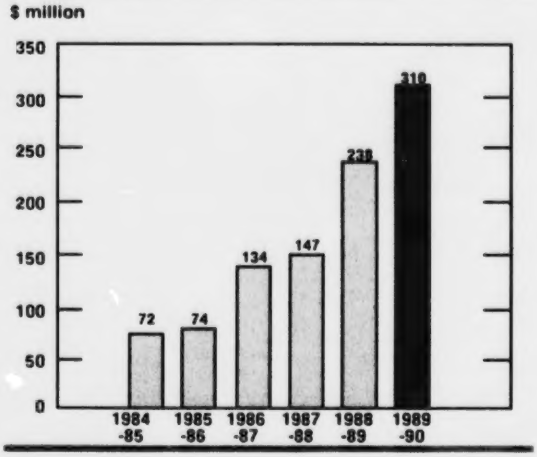
Support for these programs will be phased in over five years beginning in September 1990. Once fully implemented, up to $194 million per year in operating grants will be made available by the Province. In addition, $100 million will be available for related capital projects.

A further $60 million in capital funding will be provided over a five-year period for the renewal of technological education in secondary schools. Funding will be available beginning in 1990-91.

The Government is committed to ensuring equitable access to financial resources for the publicly funded school systems. Beginning in 1990, the local tax base will be shared equitably by all school boards in the same area. This initiative will be phased in over six years, at an annual cost to the Province of up to $180 million when fully implemented.

In the 1988 Budget, the Government responded to local needs for school facilities with a $900 million, three-year commitment to school construction and renovation. This commitment has been extended to $1.2 billion over four years. Since 1984-85, more than $2.4 billion in school capital projects has been committed. To further accelerate school construction, $300 million in Provincial funding for 1990-91 projects will be advanced this fiscal year.

Entitlements for School Capital 1984-85 to 1989-90



An additional $1 million will be provided to improve services in Ontario's public libraries.

Municipal Grants

Transfer payments to the municipal sector in 1989-90 will total $4.5 billion, an increase of 8 per cent, or $333 million over last year. Transfers to municipalities for general welfare for individuals and families in need will increase by 13.6 per cent. This increase includes additional assistance for the enriched benefits provided in response to the recommendations of the Social Assistance Review Committee. In addition, funding for transit facilities will increase by 16.6 per cent, environmental services by 23.7 per cent, and child care services provided in day nurseries by 16.6 per cent.

The Province advanced $413 million of 1989-90 Unconditional Grants entitlements to municipalities in 1988-89. This action provided a cash flow advantage to municipalities.

Capital Financing

Municipalities and school boards need more resources for schools, roads, sewers, and other infrastructure to accommodate development. The Government has completed extensive consultation on the Green Paper entitled "Financing Growth-Related Capital Needs" that explored a number of options for financing this infrastructure. The Minister of Municipal Affairs will introduce the *Development Charges Act*, which will give municipalities and school boards the option of establishing lot levies for the local share of growth-related capital projects.

School boards currently raise capital funds from property taxes and debentures. In addition to the option of lot levies, school boards will be given the further option of accessing up to $200 million in lower-cost Canada Pension Plan funds. They will also be encouraged to consider payments-in-kind and other innovative financing arrangements with developers. The *Development Charges Act* will provide a permissive legislative framework for municipalities' front-end financing arrangements and will bring structure to existing lot levies.

With the Government's other initiatives in this area, these financing alternatives should reduce the impediments to approval of land for housing and ease the adjustment to rapid growth.

I would like to thank municipalities for their co-operation in holding lot levies constant during the consultation period. I would urge municipalities to consider the intent of the *Development Charges Act* in establishing their lot levy policies over the next few months.

More detail may be found in Budget Paper E.

Agricultural Initiatives

The agriculture industry in Ontario continues to face a challenging economic environment. In addition to $220 million in sales and fuel tax rebates and exemptions, Ontario provided $524 million in expenditures in support of the agricultural community in 1988-89.

Direct financial assistance to agriculture, including property tax rebates, low interest loans and commodity price supports, has more than doubled (110.8 per cent) from 1984-85 to 1988-89, and in 1989-90 will total $239 million. A five-year, $55 million program to provide greater support for the red meat industry will be introduced. Assistance to new farmers under Farm-Start will increase to over $11 million this year. The Farm Property Tax Rebate Program will be targeted to assist those engaged in full-time farming activities.

Other support to the agricultural community includes the balance of a $10 million contribution to a $40 million joint extension of the federal-provincial Tobacco Exit Assistance Program, and $29.5 million for programs in support of adjustments in the wine and grape industry.

In recognition of the importance of environmental protection, the Government introduced the Land Stewardship Soil Conservation Program in 1987. This program provides technical and financial assistance to farmers for soil conservation. In 1989-90, funding for land conservation management will increase by $3.3 million to $12.3 million.

Enriching Ontario's Cultural Environment

In recognition of the economic importance of Ontario's cultural sector, and its unique ability to foster creativity and innovation, this Budget provides an additional $25 million to a variety of organizations and institutions that contribute to Ontario's rich cultural environment. This funding will make possible the extension of TVOntario service in Eastern Ontario; additional support for artists and arts organizations through the Ontario Arts Council; greater support for international touring by the National Ballet and the Toronto Symphony; funding for the International Telecommunications Discovery Centre; and capital improvements to the Royal Ontario Museum, the McMichael Canadian Art Collection, the Royal Botanical Gardens and Science North.

Public Sector Pensions

The fully-indexed pension benefits of our teachers and public servants are among the best in North America. However, expert reports have indicated serious shortcomings with the financing of their indexation benefits.

Legislation will be introduced to provide necessary financial reforms. One consolidated pension fund will be established for the teachers' plan and a separate consolidated pension fund will be established for the public service plan. To sustain future benefits, the Government will increase its contribution by one percentage point. Public servants and teachers will be required to provide a matching contribution. Over the next 40 years, the Government will pay for past deficits estimated to total $5.7 billion.

The plans will be permitted to invest in market securities and the contribution rate has been set on this basis. Benefit improvements brought about by Ontario's recent pension reforms will be embodied in the legislation. This Budget allocates funding to place the plans on a sound financial footing.

Budget Paper F contains further information on the pension plan reforms and the implications for the Province's financing arrangements.

Federal-Provincial Issues

The federal budget included reductions in federal support for health care and post-secondary education; deferral of the Canada Child Care Bill; increased federal excise and sales taxes, personal income taxes, and corporate taxes; and alterations to the Unemployment Insurance Program. The negative fiscal impact on Ontario of the federal budget is estimated to be $560 million on a full-year basis.

Impact of the Federal Budget on Ontario's Fiscal Position

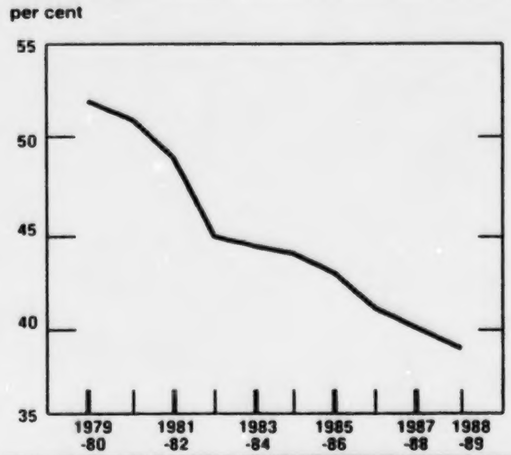
($ million)

	Full Year
Established Programs Financing - growth rate reduced by one percentage point	(75)
Deferral of Canada Child Care Bill	(50)
Crop Insurance	(13)
Tobacco - Excise/Federal Sales Tax increase of 2 cents per cigarette	(86)
Motive Fuels	(10)
Alcohol	5
Claw-back of Family Allowance Benefits and Old Age Security	(45)
Unemployment Insurance Premiums	(80)
Federal Sales Tax Changes	64
Impact on Ontario's Gross Domestic Product Growth	(270)
Total	**(560)**

The federal budget further reduces Canada's commitment to the historic partnership which has supported health and post-secondary education. Previous reductions introduced by the federal government to Established Programs Financing entitlements for Ontario amounted to approximately $970 million last year and will be about $1.2 billion this fiscal year. With the latest changes, the federal share of these programs will be reduced from a high of 51 per cent in 1979-80 to less than 38 per cent.

The federal government has also reduced by 50 per cent, its commitment for regional economic development in Ontario.

Federal Share of Health and Post-Secondary Education Spending in Ontario, 1979-80 to 1988-89



Deferral of the Canada Child Care Bill is disappointing since the federal program would have complemented Ontario's commitment to child care announced in the New Directions policy. However, the federal government will continue to share costs of child care programs under the Canada Assistance Plan.

The federal government's announced intention to proceed with the implementation of a new federal sales tax has significant implications for Ontario's economy, social programs and fiscal position. It is important that the federal government continue to work with the provinces and the territories to minimize the duplication and confusion that it will create with the introduction of its new federal sales tax.

Responsible Fiscal Management

"Pay-as-you-go" continues to be a fundamental principle guiding the Government's fiscal policy. This Budget produces the highest operating surplus in Ontario's history, which will fund 82 per cent of Ontario's largest ever annual capital expenditure. Capital investment includes the Province's own capital projects and its contribution to capital for hospitals, colleges, universities, schools and municipalities, as well as capital spending undertaken by others.

I am pleased to report that Ontario will have an operating surplus of $2.6 billion in 1989-90, and that the deficit has been reduced by $911 million this year, to $577 million, its lowest level in 15 years.

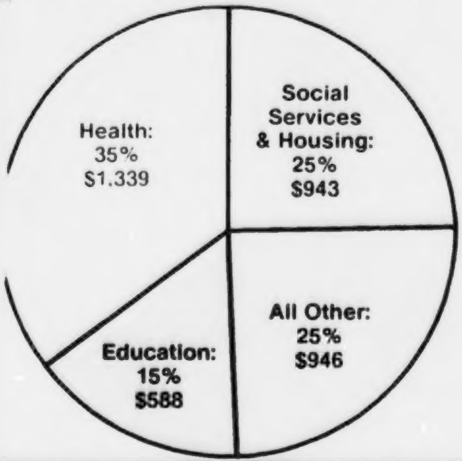
Spending Control

The Government's record of responsible fiscal management has been achieved through its determination to control spending, while raising the necessary revenues to meet the needs of the people of Ontario. The Province's per capita spending remains lower than that of four other provinces.

Last year's Budget set a target of $500 million for in-year expenditure savings and constraints. I am pleased to report that the target has been achieved. Details are presented in Budget Paper C.

More than 75 per cent of the increased expenditure requirements this year are dedicated to health care, education, housing and social services.

Distribution of New Spending in 1989-90*
($ million and per cent share)



* Data adjusted to exclude impact of advanced payments.

Revenue Measures

Additional revenue measures are described in Budget Paper A, including: changes to the land transfer tax, motive fuel taxation, driver's licence fees, alcohol levies, water power rental rates and retail sales tax rebates on alternative fuel conversions and on vehicles for the disabled; introduction of unclaimed property legislation and mining tax instalments; and application of a debt guarantee fee to Ontario Hydro.

1989-90 Fiscal Plan
($ billion)

	Interim 1988-89	Budget Plan 1989-90	Per Cent Change
Revenue	37.2	40.7	9.4
Expenditure*	38.7	41.3	6.7
Deficit to Finance Capital	1.5	0.6**	

* Includes capital investments and advanced payments. See Budget Paper C.

** Lowest level since 1974-75.

Conclusion

The Government is focussing its resources to support Ontario's competitive position while responding to the needs of those less able to help themselves. Sustainable and environmentally compatible economic growth is the key to improving the quality of life for all in Ontario.

This Budget keeps Ontario competitive, secures the financing of health care, reforms Ontario's assistance to the socially and economically disadvantaged, provides for major investments in transportation, supports a cleaner, healthier environment and funds the introduction of education innovations.

The Budget addresses the recommendations of the Social Assistance Review Committee. It substantially enriches benefits for children and their families and includes major increases to meet basic shelter needs. At the same time, individuals and families will be able to take advantage of new opportunities for independence embodied in the major reform of the social assistance system.

This Budget ensures the necessary revenues are in place to secure the future of Ontario's essential services.

The Budget provides individuals and families with $1 billion in direct savings and lower taxes through the elimination of OHIP premiums.

All this is accomplished with Ontario's future clearly in mind and with renewed dedication to Ontario's policy of continued fiscal responsibility.

Budget Paper A: Details of Revenue Measures

This Budget Paper provides further information on the revenue measures outlined in the Budget Statement. For precise information the reader is advised to consult the amending legislation.

Taxation Changes

The Income Tax Act

Rate Change

- The rate of Ontario personal income tax levied under the Ontario Income Tax Act is set at 53 per cent of Basic Federal Tax for 1990 and subsequent years.
- Ontario's tax rates corresponding to the three federal tax brackets will be:

Ontario Personal Income Tax Rates* as a Percentage of Taxable Income **Table 1**

1989 Taxable Income Brackets	1989	1990
up to $27,803	8.84	9.01
$27,804 - $55,605	13.52	13.78
over $55,605	15.08	15.37

* Rates do not include the impact of the Ontario Tax Reduction or the Ontario Surtax.

Ontario Tax Reduction

- The Ontario Tax Reduction Program has been enriched so that, for the 1990 and subsequent taxation years:
  - individuals with Ontario income tax otherwise payable of $166 or less will pay no Ontario income tax; and
  - individuals with Ontario income tax between $166 and $250 will have Ontario tax reduced by an amount equal to $500 minus twice Ontario income tax.

All enquiries regarding personal income tax changes should be directed to:

Taxation Policy Branch
Ministry of Treasury and Economics
4th Floor, Frost Building South
7 Queen's Park Crescent East
Toronto, Ontario
M7A 1Y7
(416) 965-5738

The Gasoline Tax Act

Rate Changes

- Effective midnight tonight, gasoline tax rates will be increased by one cent per litre, to 10.3 cents per litre for unleaded gasoline and 13.3 cents per litre for leaded gasoline.
- Effective January 1, 1990, gasoline tax rates will be increased by one cent per litre, to 11.3 cents per litre for unleaded gasoline and 14.3 cents per litre for leaded gasoline.
- Effective midnight tonight, the tax rate on aviation fuel will be increased by 0.22 cents per litre, to 2.1 cents per litre.

Exemption Removed

- Effective July 1, 1989, propane for use in vehicles licensed under the Highway Traffic Act will be taxed at a rate of 2.3 cents per litre. Effective January 1, 1990, the tax on propane will be further increased by 2.0 cents per litre, to 4.3 cents per litre.

The Fuel Tax Act

Rate Changes

- Effective midnight tonight, the general diesel fuel tax rate will be increased by one cent per litre, to 10.9 cents per litre.
- Effective midnight tonight, the tax rate for diesel fuel used in railway locomotives will be increased by 0.3 cents per litre, to 3.4 cents per litre.

All enquiries regarding gasoline and fuel tax changes should be directed to:

Motor Fuels and Tobacco Tax Branch
Ministry of Revenue
P.O. Box 625
33 King Street West
Oshawa, Ontario
L1H 8H9
1-800-263-1989

The Retail Sales Tax Act

Tire Tax

- Effective June 1, 1989, a tax of $5.00 will be charged on the purchase of each new, pneumatic tire, including each new tire included in the purchase of a vehicle.

- Tires for commercial airplanes, production machinery, farm equipment, fire-fighting vehicles, wheelchairs, bicycles and toys will be exempt.

Tax on Fuel Inefficient Passenger Cars

- Effective July 1, 1989, new fuel inefficient passenger cars -- those with highway fuel consumption ratings equal to or greater than 9.5 litres per 100 kilometres -- will be subject to a tax payable on purchase.
- Tax levels, based on highway fuel consumption ratings issued by Transport Canada or car manufacturers, are as follows:

Schedule of Tax Levels on Fuel Inefficient Cars **Table 2**

Highway Fuel Consumption Ratings (L/100 km)	Tax ($)
9.5 - 12.0	600
12.1 - 15.0	1,200
15.1 - 18.0	2,200
over 18.0	3,500

- The tax on fuel inefficient cars will be rebated for cars that are converted to natural gas or propane use within 180 days of purchase, but only if the conversion is to a single-use alternative fuel.

Clarification of Fair Value

- The definition of fair value in the Act will be amended to include the tire tax and the tax on fuel inefficient passenger cars.

Expansion of Rebate for Alternatively-Powered Motor Vehicles

- Effective midnight tonight, the qualification period for receipt of a rebate of retail sales tax on a motor vehicle converted to an alternative fuel is being extended to 180 days, provided that the original written order for conversion is placed within 90 days of the date of purchase of the vehicle. The rebate of retail sales tax remains capped at $750 for a propane conversion and $1,000 for a natural gas conversion.

Tax Relief for Vehicles Used to Transport Physically Disabled Persons

- For purchases made after May 31, 1989, the maximum rebate of retail sales tax on vehicles purchased to transport physically disabled persons will be $1,600 for cars and $2,400 for vans.

Removal of Exemption for Pesticides and Fertilizers

- Effective June 1, 1989, insecticides, fungicides, herbicides, rodenticides and fertilizers will be subject to retail sales tax.

- Purchases of these products by farmers will remain exempt from retail sales tax.

All enquiries regarding retail sales tax changes should be directed to:

Retail Sales Tax Branch
Ministry of Revenue
P.O. Box 623
33 King Street West
Oshawa, Ontario
L1H 8H7
1-800-263-1989

The Corporations Tax Act

Current Cost Adjustment for Pollution Control Equipment

- Effective midnight tonight, expenditures for the purchase of new air and water pollution control equipment for use in Ontario will be eligible for the Ontario current cost adjustment.
- Eligible expenditures will include purchases of equipment described in Class 24 and Class 27 of the capital cost allowance schedule.
- The current cost adjustment will be available on a maximum of $20 million of eligible expenditures on pollution control equipment in any one taxation year for any one corporation. For taxation years straddling midnight tonight, this maximum amount will be prorated according to the number of days in the taxation year after midnight tonight.
- For short taxation years, the maximum will be prorated according to the number of days in the taxation year.
- The purchase is eligible for the current cost adjustment in the first taxation year that capital cost allowance is claimable for it.
- The current cost adjustment rates are as follows:
  - For purchases made in 1989, 10 per cent;
  - For purchases made after 1989, 15 per cent.

All enquiries regarding corporate taxes should be directed to:

Corporations Tax Branch
Ministry of Revenue
P.O. Box 622
33 King Street West
Oshawa, Ontario
L1H 8H6
1-800-263-1989

The Mining Tax Act

Instalment Payments

- Effective the first taxation year commencing after midnight tonight, mine operators will be required to pay monthly instalments of mining tax, payable on the 25th day of each month.
- Monthly instalments will be based on the amount of mining tax payable for the taxation year. Any balance of tax payable will be due two months after the end of the taxation year.
- For short taxation years, the monthly instalments will be equal to the amount of mining tax payable for the year divided by the number of months in the taxation year.
- Interest at the rate charged on overdue balances for mining tax will apply to deficient instalments and will be credited for overpayments.

All enquiries regarding mining tax changes should be directed to:

Corporations Tax Branch
Ministry of Revenue
P.O. Box 622
33 King Street West
Oshawa, Ontario
L1H 8H6
1-800-263-1989

The Land Transfer Tax Act

Rate Changes

- For real estate transactions registered after May 31, 1989, land transfer tax rates will be changed as follows:
  - the 1.5 per cent rate on the value of consideration in excess of $250,000 will be extended to all property; and
  - a new 2.0 per cent rate will be added on the value of consideration in excess of $400,000 for residential property with one or two single family units.

Land Transfer Tax Refund

- For real estate transactions registered after midnight tonight, Land Transfer Tax refunds will be provided to first-time home buyers who have opened Ontario Home Ownership Savings Plans (OHOSP) and who either would qualify for OHOSP tax credits in the year their OHOSP is released for the purchase of a home, or have received OHOSP tax credits in either of the preceding two years.

- Full refunds of Land Transfer Tax will be provided to eligible purchasers of homes priced up to $150,000.
- Partial refunds of Land Transfer Tax will be provided to eligible purchasers of homes priced between $150,000 and $200,000.
- The refund may be claimed by filing appropriate documentation with the Ministry of Revenue.
- Eligibility for the Land Transfer Tax refunds will be limited to residents of Ontario at the time of the purchase, who are 18 years of age or over, who have not previously owned an interest in an eligible home anywhere, and who either would qualify for OHOSP tax credits in the year their OHOSP is released for the purchase of a home, or have received OHOSP tax credits in either of the preceding two years.
- Eligible homes for the Land Transfer Tax refund will be those that are qualifying eligible homes for OHOSP purposes.

All enquiries regarding land transfer tax changes should be directed to:

Motor Fuels and Tobacco Tax Branch
Ministry of Revenue
P.O. Box 625
33 King Street West
Oshawa, Ontario
L1H 8H9
1-800-263-1989

Commercial Concentration Levy

- Effective January 1, 1990, an annual tax levy of $1.00 per square foot (approximately $10.75 per square metre) will be assessed on:
  - all commercial property and associated parking with gross area exceeding 200,000 square feet (approximately 18,600 square metres); and
  - all commercial parking lots and parking garages;

  located within the Greater Toronto Area, which consists of the regional municipalities of Durham, Halton, Peel, York and Metropolitan Toronto.
- Commercial property includes hotels and associated parking.
- Exemptions will include warehouses, race tracks, industrial property and trucking depots.
- Other exemptions from the Commercial Concentration Levy parallel the exemptions defined in the Assessment Act and associated Private Acts.
- The levy will be payable semi-annually.

All enquiries regarding the commercial concentration levy should be directed to:

Assessment Services Division
Ministry of Revenue
P.O. Box 627
33 King Street West
Oshawa, Ontario
L1H 8H5
1-800-263-1989

Health Care Refinancing

Effective January 1, 1990, Ontario Health Insurance Plan premiums will be eliminated and replaced by the new Employer Health Levy (EHL).

Elimination of OHIP Premiums

Groups

- Groups are required to remit premiums monthly up to and including payments due in December 1989.

Individuals Paying Directly

- Individuals are required to remit premiums up to and including payments due in December 1989.
- For individuals who are required to remit in November or December of 1989, the premium will be prorated as follows:
  - the November payment will be two-thirds of the amount of the quarterly payment otherwise payable;
  - the December payment will be one-third of the quarterly payment otherwise payable.
- Ministry of Health billings will reflect the reduced premiums for November and December.

Premium Assistance

- Applications for premium assistance will no longer be required beginning January 1, 1990.

Registration

- Although premiums will be eliminated at the end of December 1989, all individuals will be required to notify the Ministry of Health of any changes (e.g., marriage, divorce, change of address) affecting registration.

All enquiries regarding OHIP premiums and registrations should be directed to the nearest OHIP office or to:

Claims Payment Division
Ministry of Health
Macdonald Cartier Building
49 Place d'Armes
P.O. Box 48
Kingston, Ontario
K7L 5J3
(613) 548-7878 (Kingston)

Employer Health Levy

Description

- For each Ontario employer, the applicable Employer Health Levy (EHL) rate is applied to the total annual amount of gross wages and salaries and other remuneration paid by the employer.
- EHL rates will be as follows:

Employer Health Levy Rates **Table 3**

Total Annual Gross Wages, Salaries and Other Remuneration ($)	Rate (%)
0 - 200,000	.98
200,001 - 400,000	graduated rates
over 400,000	1.95

Mandatory Monthly Instalments

- Employers will be required to pay mandatory monthly instalments on the basis of the applicable rate multiplied by the gross salaries, wages and other remuneration for the previous month.
- The first instalment must be paid to the Ministry of Revenue in January 1990.
- The feasibility of modifying the instalment schedule for certain smaller employers will be examined later in 1990.
- Employers will be required to file an annual statement reconciling the total instalments paid during the preceding year with the actual EHL payable for that year.

All enquiries regarding the Employer Health Levy should be directed to:

Revenue and Operations Research Branch
Ministry of Revenue
33 King Street West
Oshawa, Ontario
L1H 8H5
1-800-263-1989

Other Revenue Changes

Fees and Licences

Passenger Vehicle Registration Fees

- Effective for registration renewals commencing August 1, 1989, annual registration fees for passenger vehicles in Southern Ontario will be increased as follows:
  - Passenger cars and commercial motor vehicles weighing 3,000 kilograms or less used for personal purposes, to $66 from $54;
  - Motorcycles and mopeds, to $36 and $12, respectively, from $30 and $9.
- Effective for registration renewals commencing August 1, 1989, annual registration fees for passenger vehicles in Northern Ontario will be increased as follows:
  - Passenger cars and commercial motor vehicles weighing 3,000 kilograms or less used for personal purposes, to $33 from $27;
  - Motorcycles and mopeds, to $18 and $12, respectively, from $15 and $9.
- Effective for registration renewals commencing December 1, 1989, annual registration fees for vehicles registered in the Greater Toronto Area will be increased as follows:
  - Passenger cars and commercial motor vehicles weighing 3,000 kilograms or less used for personal purposes, to $90 from $66;
  - Commercial motor vehicles weighing 3,000 kilograms or less, to $90 from $81;
  - Motorcycles, to $48 from $36;
  - Buses, school buses and farm vehicles will have the bottom range of their fee schedules adjusted to ensure the minimum registration fee is $90.

  (The Greater Toronto Area consists of the regional municipalities of Durham, Halton, Peel, York and Metropolitan Toronto.)

Driver's Licence Fee

- Effective August 1, 1989, the driver's licence fee will be increased from $21 to $30 per three-year period.

All enquiries regarding fees and licences should be directed to:

Licensing and Control Branch
Ministry of Transportation
Main Floor, East Building,
2680 Keele Street
Downsview, Ontario
M3M 3E6
1-800-263-1989

Revenue from Spirits, Wine and Beer

- The volume levy applied to beer will be increased to one cent for every 131.58 millilitres.
- The levy applied to each one litre of spirit and wine coolers will be reduced by 10 cents to 14 cents.
- Proportionate changes to these levies will apply to all other bottle/package sizes of these products.
- A new environmental levy will be applied to all beverage alcohol containers for which there is no deposit/recycling system. The amount of the levy, including retail sales tax, will be five cents per container.
- Breweries producing 50,000 or fewer hectolitres of beer annually on a world-wide basis will be liable for only one-half of the current manufacturer's licence fee. This special rate will be in effect until June 15, 1991. Between June 15, 1991 and June 15, 1994, this special rate will be restored to parity with the prevailing manufacturer's licence fee in three equal steps.
- These changes affect shelf prices June 19, 1989.

All enquiries regarding these changes should be directed to:

Liquor Control Board of Ontario
Communications Office
55 Lakeshore Boulevard East
Toronto, Ontario
M5E 1A4
1-800-668-5226

Other Program Changes

Ontario Home Ownership Savings Plan

The following changes to the Ontario Home Ownership Savings Plan (OHOSP) will enhance the attractiveness of the program.

- The liquidity restriction on eligible OHOSP investments will be removed thereby allowing financial institutions to offer fixed-term investments such as Guaranteed Investment Certificates in addition to demand deposits.
- The early release of plan assets prior to closing will be permitted where interim payments to a builder are part of the agreement of purchase and sale.
- Tax credits will not be recovered when a plan holder acquires an interest in a home as a result of marriage or inheritance.
- The restrictions disallowing participation in the program to individuals whose spouse owned a home prior to marriage will be removed.

All enquiries regarding changes to the OHOSP program should be directed to:

Guaranteed Income and Tax Credit Branch
Ministry of Revenue
P.O. Box 624
33 King Street West
Oshawa, Ontario
L1H 8H8
1-800-263-1989

Unclaimed Property Program

The new unclaimed property program will require holders of unclaimed property to transfer the property to the Public Trustee.

Types of Property Affected

- The legislation will apply to intangible property. This includes bank, loan, trust and credit union deposits, wages, royalties, corporate shares and dividends, money orders, and insurance deposits and proceeds.

Holding Period

- After a holding period which will vary depending on the type of property, the holder of property for which the owner cannot be located will notify the Public Trustee.

Advertisement for Owners

- Based on this notification, the Public Trustee will advertise for the owner in all Ontario daily newspapers.
- A list of owners will also be published in the Ontario Gazette.

Return of Property by Holder

- Owners who come forward will be referred to the holder to claim their property.

Transfer of Property to Province

- Property that remains unclaimed after the Public Trustee has advertised for the owner will be turned over to the Province.

Property Held in Perpetuity

- The property will be converted to cash and the Province will hold the cash value of the property in perpetuity for the owner.
- If the owner establishes his or her claim to the property, the cash value of the property will be returned. Interest will be paid to the owner. However, an administration fee will be charged.

All enquiries regarding the Unclaimed Property Program
should be directed to:

Taxation Policy Branch
Ministry of Treasury and Economics
4th Floor, Frost Building South
7 Queen's Park Crescent East
Toronto, Ontario
M7A 1Y7
1-800-263-1989

The Power Corporation Act

Ontario Hydro Debt Guarantee Fee

- Ontario Hydro will be required to pay an annual debt guarantee fee. The fee is set at a rate of one half of one per cent (50 basis points) and is to be applied to Hydro's total Provincially-guaranteed debt outstanding, as well as on all outstanding sums advanced to Ontario Hydro by the Province as of the previous December 31.
- The fee for 1989 will be based on the debt outstanding, guaranteed or advanced by the Province as of December 31, 1988, and will be prorated on the basis of the number of days in the year subsequent to midnight tonight.

All enquiries regarding the Ontario Hydro Debt Guarantee Fee
should be directed to:

Finance Policy Branch
Ministry of Treasury and Economics
2nd Floor, Frost Building North
95 Grosvenor Street
Toronto, Ontario
M7A 1Y7
(416) 965-5786

Water Power Rentals

- Effective January 1, 1990, private lessees of provincial Crown lands which are used for hydro electricity generation will be subject to a new levy on installed generating capacity which has been in service for more than 10 years.
- The capacity levy will be in addition to the existing water rentals charge based on energy production.
- The rate of the capacity levy will be the same as that paid by Ontario Hydro.
  - For 1988 this was $10.9566 per installed kilowatt.
  - The rate is increased annually by the rate of inflation.

All enquiries regarding water power rentals should be directed to:

Coordinator, Water Power Resources
Lands Management Branch
Ministry of Natural Resources
Whitney Block, Room 6610
99 Wellesley Street West
Toronto, Ontario
M7A 1W3
(416) 324-4941

Summary Tables

1989 Budget Impact Summary
Ontario Revenue Changes
($ million)

Table 4

	1989-90		Full Year	
Taxation Changes				
Personal Income Tax				
Rate Increase	36		237	
Ontario Tax Reduction	(1)	35	(9)	228
Gasoline and Fuel Taxes		145		297
Retail Sales Tax				
Tire Tax	30		40	
Tax on Fuel Inefficient Cars	6		8	
Alternatively-Powered Vehicles	0		(1)	
Vehicles for Physically Disabled	0		1	
Pesticides and Fertilizers	9		12	
Beverage Alcohol	3	48	4	64
Corporations Tax		(3)		(5)
Mining Tax		30		-
Land Transfer Tax				
Rate Changes	30		40	
Refunds	(8)	22	(10)	30
Commercial Concentration Levy		62		125
Impact of Taxation Changes		**339**		**739**
Health Care Refinancing				
OHIP Premiums		(515)		(1,843)
Employer Health Levy		549		2,114
Impact of Health Care Refinancing*		**34**		**271**
Other Revenue Changes				
Fees and Licences				
Vehicle Registration Fees	54		105	
Driver's Licence Fees	12	66	19	124
LCBO Profits/LLBO Licences		23		29
Impact of Other Revenue Changes		**89**		**153**
Other Program Changes				
Unclaimed Property Program		25		25
Ontario Hydro Debt Guarantee		80		138
Water Power Rentals		1		4
Impact of Other Program Changes		**106**		**167**
Total Impact of Revenue Changes		**568**		**1,330**

( ) Indicates a revenue loss
*** Includes the impact on Provincial Personal Income Tax and Corporate Income Tax revenues.**

1989 Budget Impact Summary* Distribution

Table 5

($ million)

	Full Year
People	
OHIP Premium Replacement	(1,000)
Gasoline and Fuel Taxes	187
Vehicle Registration Fees	87
Personal Income Tax	228
Beverage Alcohol	24
Land Transfer Taxes	(5)
Environmental Taxes	56
Driver's Licence Fees	19
Total Impact on People	**(404)**
Business	
OHIP Premium Replacement	553
Gasoline and Fuel Taxes	77
Vehicle Registration Fees	13
Commercial Concentration Levy	88
Land Transfer Taxes	25
Environmental Taxes	7
Miscellaneous	(1)
Total Impact on Business	**762**
Other Programs	
Unclaimed Property Program	25
Ontario Hydro Debt Guarantee Fee	138
Water Power Rentals	4
Total Other Programs	**167**

* Includes the impact of federal and Provincial Corporate Income Tax and Personal Income Tax.

Ontario Tax Expenditure Changes

Changes to Ontario tax expenditures contained in this Budget are summarized in the following table. A detailed list of Ontario tax expenditures can be found in the *1988 Economic Outlook and Fiscal Review.*

1989 Budget Impact Summary **Table 6**
Changes to Ontario Tax Expenditures
($ million)

	1989-90	Full Year
Employer Health Levy		
Reduced Rate for Small Business	(46)	(190)
Personal Income Tax		
Ontario Tax Reduction Enrichment	(1)	(9)
Corporations Tax		
Current Cost Adjustment - Pollution Control Equipment	(3)	(5)
Retail Sales Tax		
Removal of Exemption for Pesticides and Fertilizers	9	12
Cap on Rebate for Physically Disabled	0	1
Alternatively-Powered Vehicles	0	(1)
Land Transfer Tax		
Refunds	(8)	(10)
Gasoline Tax Act		
Propane Exemption Removal*	6	11

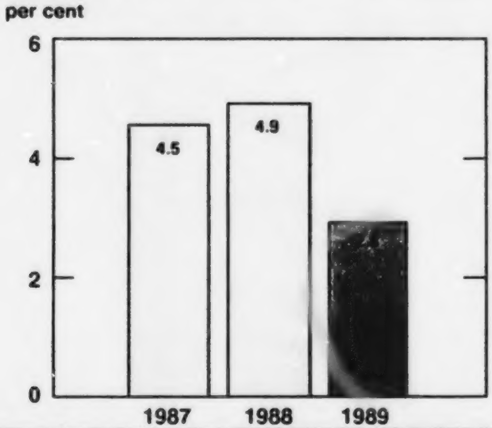
( ) Indicates a tax expenditure increase.
* Based on the new higher unleaded gasoline tax rate.

Budget Paper B: Economic Outlook

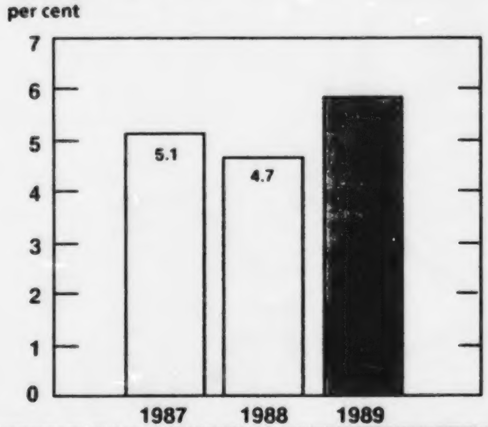
Ontario Outlook: 1989 Highlights

- Ontario's real Gross Domestic Product (GDP) is forecast to increase by 2.8 per cent in 1989. This follows an increase of 4.9 per cent in 1988.
- Consumer price inflation in Ontario is forecast to be 5.8 per cent in 1989.

Real Growth
1987 to 1989

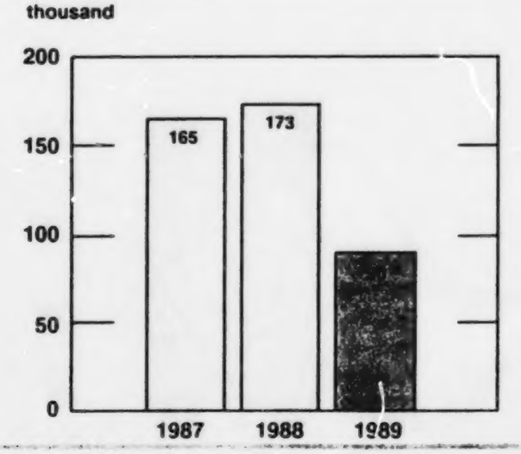


CPI Inflation
1987 to 1989

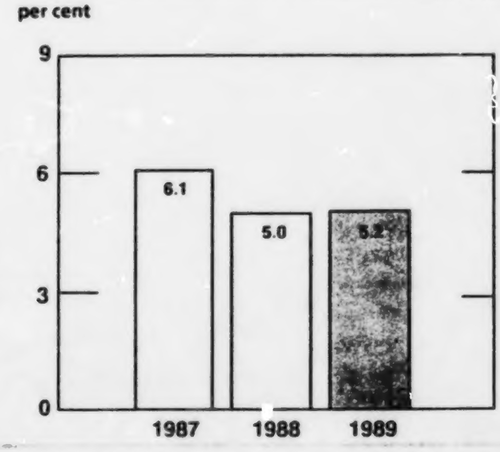


- The Ontario economy is expected to create 90,000 jobs in 1989.
- The unemployment rate is expected to average 5.2 per cent in 1989.

Job Creation
1987 to 1989



Unemployment Rate
1987 to 1989



Key Factors

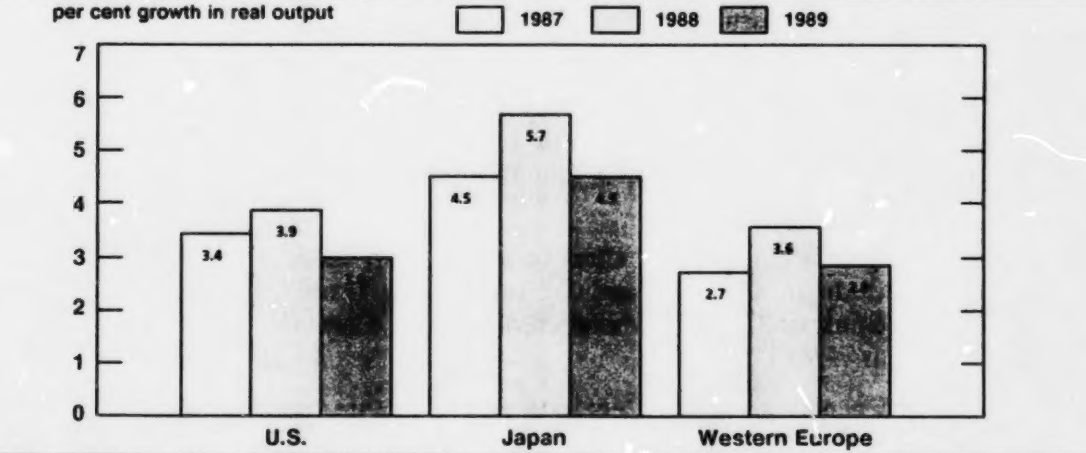
Ontario's economic performance is influenced by developments in other parts of Canada and abroad. Exports of goods and services account for 47 per cent of Ontario's Gross Domestic Product. Of these exports, more than 60 per cent go to the United States and more than 30 per cent go to other provinces. Growth in the United States and in the rest of Canada is thus essential to the economic health of Ontario. Also central to the province's economic prospects are movements in oil prices, exchange rates and interest rates. The following sections review the outlook for these key factors.

International Economic Environment

Underpinned by the swift recovery of consumer confidence from the stock market crash and strong non-residential investment spending, real GDP in the industrial countries expanded at a 4.1 per cent rate in 1988. Strong demand for manufactured goods and resources contributed to a 9.3 per cent increase in world trade.

The pace of expansion in most industrial countries is expected to moderate this year. Rapid growth through 1988 resulted in a substantial tightening in labour and product markets, particularly in the United States. Inflation rates increased, prompting central banks to raise interest rates. As the impact of higher interest rates is felt, growth in most countries will moderate over the second half of 1989.

International Economic Outlook
1987 to 1989



The economy of the United States, Ontario's most important export market, is expected to continue to grow this year, albeit at a slower pace than in 1988. U.S. real Gross National Product (GNP) is forecast to grow by 3 per cent in 1989, compared to an increase of 3.9 per cent in 1988. Growth will be assisted by the rebound of agricultural production from last year's drought and the continued healthy rate of expansion of business investment.

Recent projections by the International Monetary Fund indicate that real GDP growth in Western Europe will fall to 2.8 per cent this year from 3.6 per cent in 1988. Japan's relatively strong performance will persist, with the economy expanding by 4.5 per cent in 1989 following a 5.7 per cent rise in 1988.

Rest of Canada

The trend toward more balanced regional growth seen in 1987 and 1988 is expected to continue this year. Real GDP in the rest of Canada is expected to increase by 3.1 per cent in 1989, compared to an increase of 4.3 per cent in 1988.

Continued but slower growth in the rest of Canada in 1989 is expected to contribute modestly to Ontario's interprovincial exports.

Oil Prices

Oil prices have risen recently in response to renewed discipline within OPEC, supply disruptions in Alaska and the North Sea and firm demand throughout the industrialized world. Oil prices will be stronger in the first half of 1989 and then soften somewhat in the second half as non-OPEC supply expands and industrial demand eases.

- In 1989, the price of oil delivered to Ontario is expected to average $17-$19 (U.S.) per barrel, compared to $16 (U.S.) in 1988.
- After helping to moderate inflation during the past three years, oil prices will add to inflationary pressures in 1989.

The Exchange Rate and Financial Markets

The steady rise in interest rates in both Canada and the U.S. since last spring reflects the anti-inflationary stance of the Bank of Canada and the U.S. Federal Reserve Board.

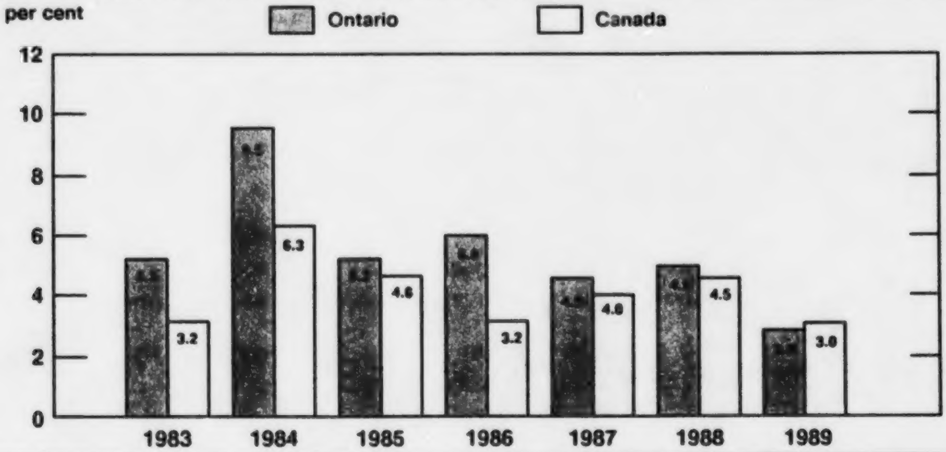
- Since the beginning of 1988, short-term interest rates have risen by four percentage points in Canada, and by more than three points in the United States. The Bank of Canada is expected to keep Canadian short-term interest rates high relative to U.S. levels.
- The wide differential between Canadian and U.S. interest rates, coupled with a further improvement in Canada's terms of trade, is expected to support the Canadian dollar in the 81-84 cent (U.S.) range over the balance of the year.
- The 11 per cent appreciation of the Canadian dollar vis-a-vis its U.S. counterpart over the past two years will continue to adversely affect net exports and corporate earnings.

Overview of the Ontario Economy

After six years of very rapid growth, the Ontario economy is expected to experience a moderate slowdown in 1989.

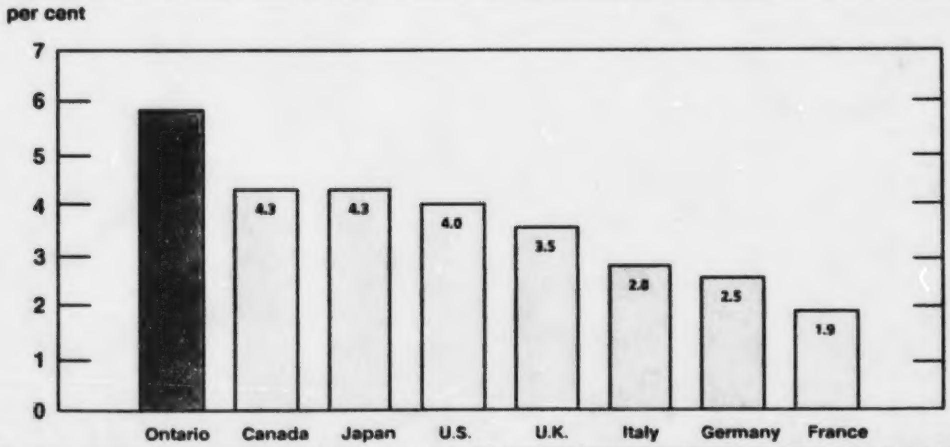
- Real GDP in Ontario has risen by more than 40 per cent during the past six years.
- During this time, growth in the Ontario economy has outpaced growth in the rest of Canada.

Growth in Real Gross Domestic Product
1983 to 1989



- Ontario has also outpaced all the major industrial nations over the 1983-1988 period.

Comparative Real Output Growth, 1983-1988
(6-year annual averages)



The strength and duration of the current expansion has involved a shifting focus of growth, with different sectors of the economy fuelling growth at various stages. The initial phase of growth was led by a sharp rebound in auto exports, followed by strong consumer spending. More recently, growth has been driven by a surge in both residential construction and business investment.

Ontario's economic growth is expected to decelerate in 1989, reflecting the expected slowdown in the residential construction sector, a deterioration in net exports, and an upturn in the personal savings rate.

While the 2.8 per cent rate of real growth forecast for 1989 is less than the rates achieved earlier in the current expansion, it is expected to be sufficient to generate 90,000 new jobs and thus maintain Ontario's annual unemployment rate near its 15-year low of 5 per cent.

The Outlook in Detail

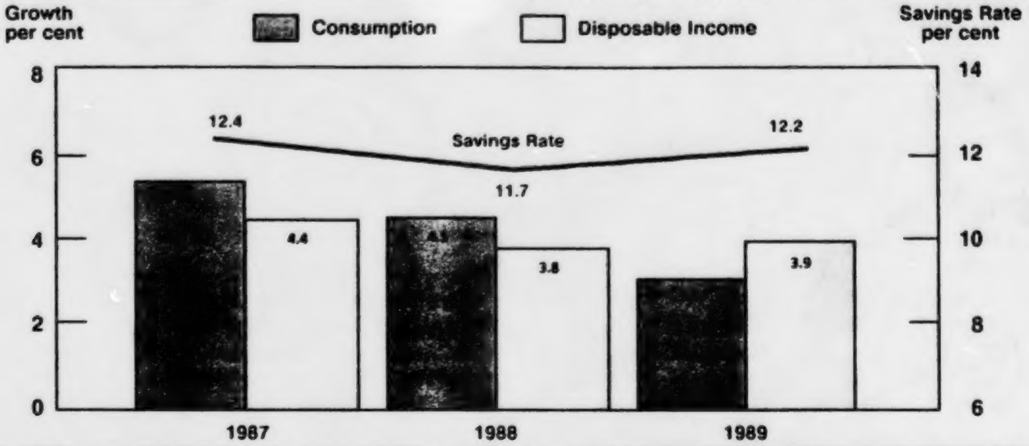
Consumer Demand

Over the past four years, strong growth in personal income and a continued decline in the savings rate fuelled strong consumer spending. As a result, consumption has grown more quickly than personal disposable income.

Despite more moderate job creation and an upturn in the savings rate expected in 1989, growth in consumption is likely to remain healthy, especially in the first half of the year.

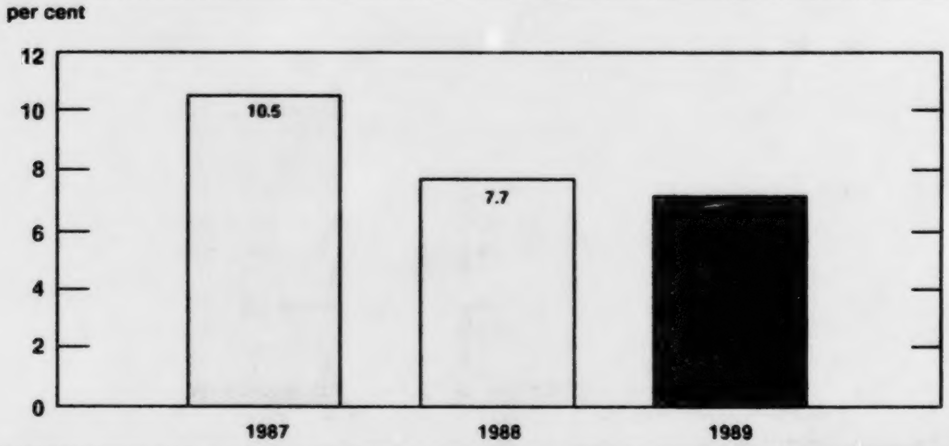
- Higher wages will partially offset the negative effect of slower employment growth.
- Large tax refunds in early 1989 will support disposable income growth.
- The very high levels of household debt relative to disposable income, coupled with higher interest rates, will encourage consumers to pay down their debt and increase savings.
- Consumption will increase by slightly less than the growth in personal disposable income.

Real Consumption, Real Personal Disposable Income and the Savings Rate
1987 to 1989



Growth in retail sales is expected to moderate to 7.2 per cent in 1989 from last year's 7.7 per cent pace. The slowdown in retail sales reflects weaker auto sales and the continuing shift in consumption from goods to services.

Growth in Ontario Retail Sales
1987 to 1989



Housing

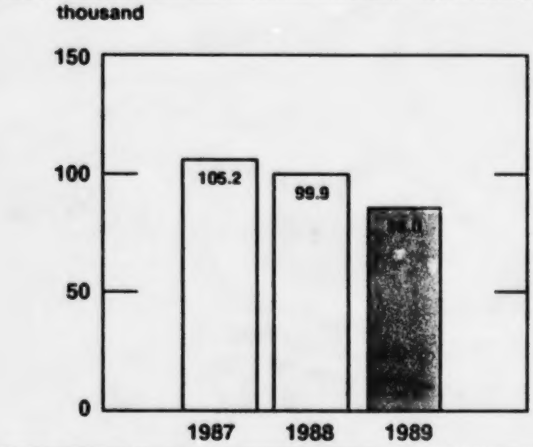
In the past three years, almost one quarter of a million housing units were completed, providing homes for more than 400,000 people in Ontario.

Ontario housing starts totalled almost 100,000 in 1988, the second highest level since 1973. New home construction rebounded quickly from a series of strikes during the summer.

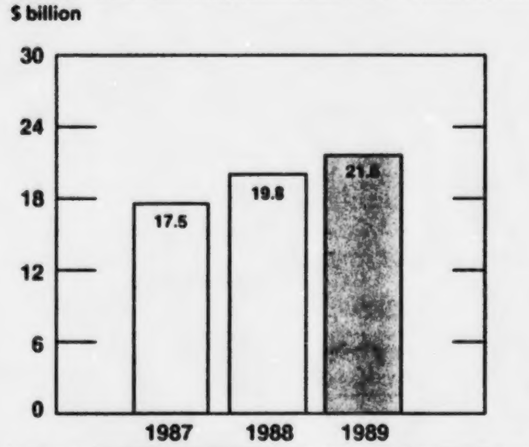
- Residential investment expenditures reached $19.8 billion in 1988, a 13 per cent increase from the 1987 level of $17.5 billion.

In 1989, growth in residential investment spending is expected to moderate to 9.3 per cent, reaching $21.6 billion. A high level of housing activity in the early part of 1989 is expected to give way to softness later this year. Housing starts are expected to reach 86,000 in 1989.

Housing Starts
1987 to 1989



Residential Construction
Expenditures, 1987 to 1989



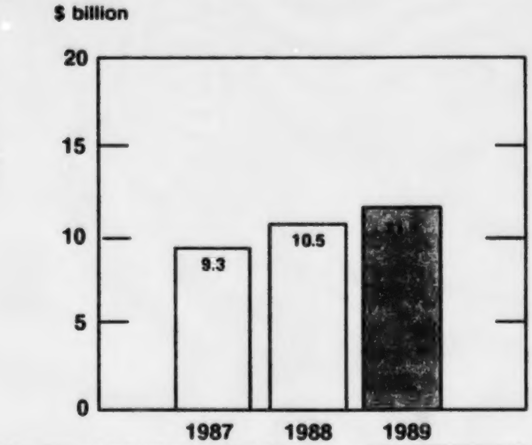
Business Investment

Investment spending is expected to be strong in 1989 in response to continuing growth in demand, healthy corporate profits and high capacity utilization rates.

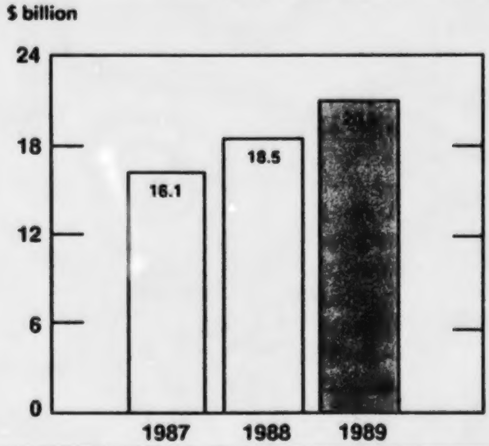
- Pre-tax profits are expected to increase by 10.1 per cent in 1989, following a 15.6 per cent advance in 1988.
- The average capacity utilization rate for all non-farm goods-producing industries in Canada reached 89.8 last year, a post-recession high.

Businesses undertook an unprecedented level of investment last year, increasing spending on plant and equipment by 14 per cent. In 1989, business investment spending is forecast to rise a further 11.7 per cent, to reach $32.4 billion. Investment is expected to be particularly strong in the manufacturing, forestry and commercial services sectors.

Business Non-Residential Construction, 1987 to 1989



Business Machinery and Equipment Investment, 1987 to 1989



- Non-residential construction spending is forecast to grow by 10 per cent in 1989, after increasing by 12.6 per cent in 1988.
- Machinery and equipment spending is projected to increase by a solid 12.7 per cent in 1989, following a strong 14.9 per cent increase in 1988.

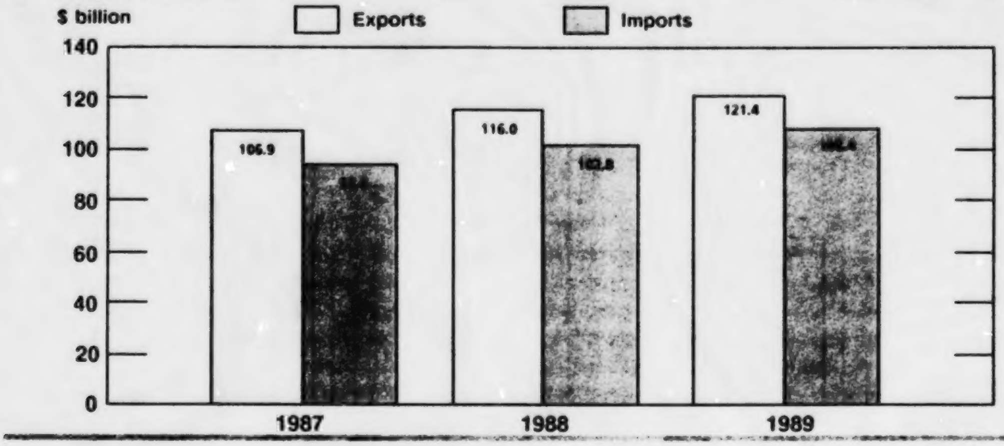
Manufacturing investment is expected to increase by 16 per cent in 1989. Large increases are expected in the rubber, primary metal, paper and allied products, petroleum and chemical sectors.

Trade

In 1989, the rate of growth in Ontario imports is expected to continue to outpace export growth.

- Import growth will moderate to 5.4 per cent in 1989 from 9 per cent in 1988. Strong increases in machinery and equipment investment and continued strength in consumer spending will be the main factors contributing to on-going strength in import growth.
- Ontario exports are expected to grow by 4.7 per cent in 1989, compared to an 8.5 per cent increase last year. Export growth to the United States will be limited by weaker growth in the U.S. economy and the 11 per cent appreciation of the Canadian dollar experienced over the past two years.

Ontario Trade
1987 to 1989



Employment and Prices

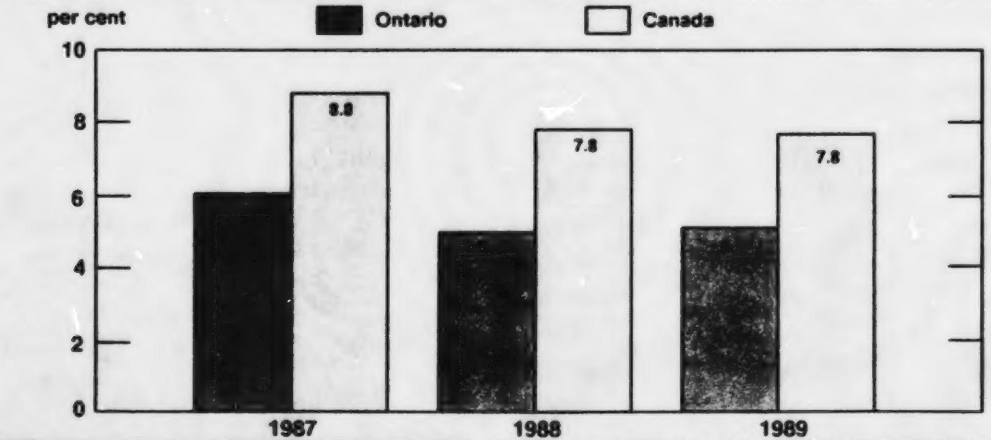
Labour Markets

A record 173,000 new jobs were created last year, reducing the provincial unemployment rate by more than a full percentage point to 5 per cent. Employment increased across the province, with centres that lagged in the earlier years of the expansion experiencing the largest reductions in unemployment.

The unemployment rate will rise slightly in 1989, as employment growth moderates.

- Employment is projected to increase by 90,000 in 1989.
- The net increase in the labour force is expected to be 104,000.
- The unemployment rate is expected to average 5.2 per cent this year, up slightly from 5 per cent in 1988.

Unemployment Rates, Ontario and Canada
1987 to 1989

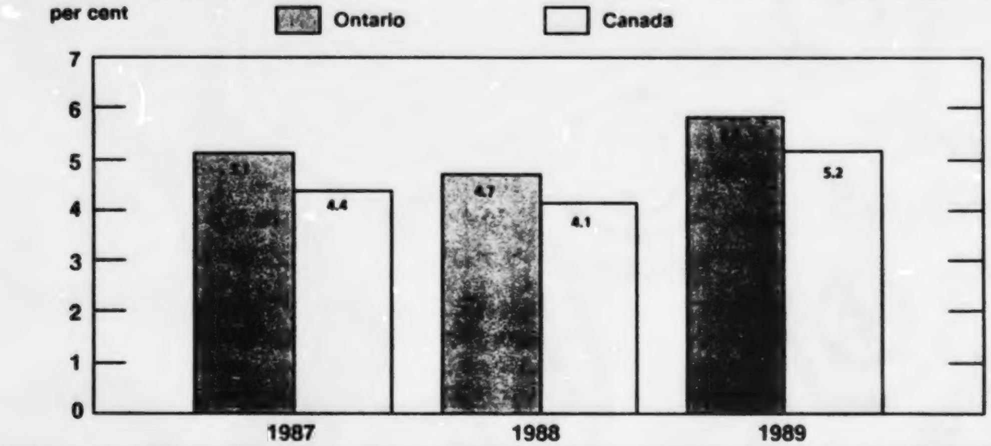


Inflation

The province's consumer price inflation rate fell to 4.7 per cent in 1988 from 5.1 per cent in 1987, primarily as a result of smaller increases in food prices and lower costs for petroleum products.

In 1989, the Ontario inflation rate is forecast to rise to 5.8 per cent. Increases in indirect taxes in the recent federal budget, higher raw material prices, higher wage increases and the impact of the 1988 drought will all contribute to the increase. However, the recent appreciation of the Canadian dollar against its U.S. counterpart and the expected slowing in house price increases should partly offset these inflationary pressures.

Consumer Price Index Inflation, Ontario and Canada 1987 to 1989



The Ontario Economy 1987 to 1989

	1987	1988	1989	87/86	88/87	89/88
		$ billion			per cent	
Total Output						
Gross Domestic Product	224.7	246.6	267.5	9.5	9.7	8.5
GDP (Constant 1981 $)	169.9	178.2	183.2	4.5	4.9	2.8
Business Investment						
Machinery and Equipment	16.1	18.5	20.9	7.1	14.9	12.7
Non-Residential Construction	9.3	10.5	11.5	11.4	12.6	10.0
Housing						
Residential Construction	17.5	19.8	21.6	32.8	13.0	9.3
Housing Starts - Units (000s)	105.2	99.9	86.0	-	-	-
Other Components of Demand						
Retail Sales	59.0	63.6	68.2	10.5	7.7	7.2
Exports	106.9	116.0	121.4	1.1	8.5	4.7
Imports	94.4	102.8	108.4	1.5	9.0	5.4
Income						
Personal Income	187.2	203.6	220.8	9.3	8.8	8.5
Corporate Profits (before taxes)	26.6	30.7	33.8	20.2	15.6	10.1
Prices						
Consumer Price Index (Canada)	-	-	-	4.4	4.1	5.2
Consumer Price Index (Ontario)	-	-	-	5.1	4.7	5.8
Jobs						
Labour Force (000s)	4,992	5,118	5,222	2.7	2.5	2.0
Employment (000s)	4,689	4,862	4,952	3.6	3.7	1.9
Unemployment Rate (% of labour force)	6.1	5.0	5.2	-	-	-

Source: Ontario Ministry of Treasury and Economics.

Budget Paper C: Fiscal Review and Outlook

Introduction

This paper:

- reviews the 1988-89 fiscal plan;
- includes a summary of the 1988-89 revenue and expenditure performance;
- presents the 1989-90 fiscal outlook;
- explains the current status of borrowing and debt management; and
- outlines comparative fiscal measures.

1988-89 Fiscal Performance

The interim deficit estimated at $1,488 million is $56 million lower than in the original Budget plan. The interim result is $1,001 million below the $2,489 million deficit in the 1987-88 fiscal year.

1988-89 Budget Update Summary **Table 1**
($ million)

	Budget Plan	Interim	In-year Change
Revenue	36,343	37,222	879
Expenditure	37,887	38,710	823
Deficit	1,544	1,488	(56)

The 1988-89 operating position is estimated at a surplus of $1,670 million which funded 61 per cent of capital expenditures excluding capital advances. This operating surplus is $411 million higher than in the original Budget plan.

1988-89 Operating Position **Table 2**
($ million)

	Budget Plan	Interim	In-year Change
Revenue	36,343	37,222	879
Current Expenditure	35,084	35,552	468
Operating Surplus	1,259	1,670	+411

1988-89 Revenue

Revenue in 1988-89 reflected strong economic growth in Ontario. Interim results indicate that revenues reached a level of $37,222 million, an increase of $879 million above the original Budget estimate. Almost all of this increase can be attributed to in-year adjustments to the federal forecast of personal income taxes. Federal adjustments to in-year transfers amounted to more than $1 billion. Ontario has requested that improvements be made to forecasting methods used for calculating provincial Personal Income Tax entitlements.

Personal Income Tax revenue was $1,065 million above the original federal forecast and reflects larger than anticipated federal adjustments to current and prior years', particularly 1987 tax year, entitlements. The increase in Personal Income Tax was partially offset by a net $251 million decrease in federal payments under the Established Programs Financing arrangement.

The housing market continued to exhibit exceptional growth, contributing to a $131 million improvement in revenue from the Land Transfer Tax. Gains in base metal prices contributed to a healthy profit performance in the mining sector and a $90 million increase in Mining Profits Tax.

Higher than anticipated consumption led to a $16 million increase in Gasoline Tax revenue. Reciprocal Taxation revenues, which represent tax on federal government purchases of goods and services subject to Ontario's Retail Sales Tax, increased by $15 million.

Taxation revenue increases were partly offset by a decline from the forecast of $107 million in Corporations Tax revenue. The decline reflects refunds in respect of prior years and lower than anticipated final payments in March. Other taxation revenue shortfalls included a $38 million decrease in Retail Sales Tax, a $16 million decline in Fuel (diesel) Tax and a $26 million decline in Tobacco Tax. These declines reflect lower than forecast levels of consumption.

Non-taxation source revenues were $33 million below the original Budget plan. LCBO Profits experienced a decline of $56 million, primarily from a lower than forecast level of consumption and an adjustment to cash-flow arrangements. Lower consumption also contributed to the $16 million decline in the estimate of LLBO Fees and Licences. Lower than forecast water power charges and Crown timber dues led to a $21 million decline in Royalties. Other decreases were experienced in Fines and Penalties, and Vehicle Registration Fees.

These declines were partly offset by an increase of $16 million in Utility Service Charges reflecting new or expanded service agreements with, and increased rates charged to, municipalities. Increased ticket sales in the latter part of the year contributed to a $20 million increase in Lottery Profits. Other improvements included a $20 million increase for Sales and Rentals and $10 million for Interest on Investments.

Payments from the federal government declined by $213 million, largely as a result of the reduction in Established Programs Financing payments described previously. Other changes include a $37 million increase in Canada Assistance Plan payments due to higher levels of Provincial spending on cost-shared social assistance programs.

Summary of In-Year Changes to Revenue in 1988-89 **Table 3**
($ million)

Taxation Revenue:		
Personal Income Tax	1,065	
Retail Sales Tax	(38)	
Reciprocal Taxation	15	
Corporations Tax	(107)	
Mining Profits Tax	90	
Gasoline Tax	16	
Fuel Tax	(16)	
Tobacco Tax	(26)	
Land Transfer Tax	131	
Other Taxation	(5)	
Sub-Total		**1,125**
Other Revenue:		
LCBO Profits	(56)	
LLBO Fees and Licences	(16)	
Lottery Profits	20	
Interest on Investments	10	
Royalties	(21)	
Utility Service Charges	16	
Sales and Rentals	20	
Other	(6)	
Sub-Total		**(33)**
Payments from the Federal Government:		
Established Programs Financing	(251)	
Canada Assistance Plan	37	
Other	1	
Sub-Total		**(213)**
Total In-year Changes to Revenue		**879**

1988-89 Expenditure

The Government's fiscal strategy for 1988-89 included holding expenditures to the $37,887 million Budget plan. The Plan included a $500 million savings and constraints goal which was achieved. In addition, during the year, $377 million in major unavoidable expenditure increases were also accommodated within the original expenditure plan. This was made possible through the reallocation of resources from other areas. Interim expenditures for 1988-89 are estimated at $38,710 million or $823 million above the original Budget plan of $37,887 million. This increase is due solely to advance payment of 1989-90 entitlements to capital assistance for colleges, universities and school boards and to Unconditional Grants for municipalities.

Table 4 provides highlights of the in-year expenditure changes. An explanation of the major changes follows.

The early payment of $300 million in capital grants for 1989-90 school construction improved the cash flow for school boards and will allow projects to proceed more quickly.

In order to assist colleges and universities with their capital construction and renovation programs, $110 million in Provincial capital support for 1989-90, was paid in 1988-89.

The $413 million in Unconditional Grants advanced to municipalities will provide an interest benefit of up to $6 million to municipalities.

Ministry of Agriculture and Food expenditures were lower in 1988-89, mainly due to $36 million in underspending in various farm income stabilization programs. Stable prices for crops such as soybeans and corn required a lower level of Provincial support. New programs were also introduced during the year to assist farmers, including support to the wine and grape industry, and herd drought assistance. An additional $3.5 million was also provided to the tobacco producers assistance fund.

The Ministry of Community and Social Services received additional funding of $96 million during the year. The Family Benefits Program received $56 million in additional funding for required program entitlements. Children's Aid Societies received additional caseload funding of $9 million, while requirements for homes for the aged increased by $11 million.

The Ministry of Health allocated an additional $89 million for the operation of hospitals, including in-year hospital budget adjustments for programs which had previously been approved, as well as funding enrichments for high-demand services such as dialysis, cardiovascular, and trauma programs. Increases in other health services, including the Ontario Drug Benefit Plan, Emergency Health Services, and the Extended Care Program, totalled $48 million. Funding for these program increases were fully offset from within the Ministry's appropriation. Reduced health facilities capital expenditures reflect, in part, slowdowns in the construction industry which resulted from strikes earlier in the year. OHIP expenditures increased by 8.5 per cent over 1987-88, which was $83 million less than budgeted.

The Ministry of Natural Resources required an additional $40 million for labour, supplies and services to fight forest fires in Northern Ontario during the summer of 1988.

An additional $31 million was contributed to the Teachers' Superannuation Fund (TSF) and the Teachers' Superannuation Adjustment Fund (TSAF), bringing total Provincial contributions to $393 million for 1988-89

Highlights of In-Year Changes to Expenditure in 1988-89 **Table 4**

($ million)

Increases:		
Advance Payments:		
School Capital Grants	300	
Capital Payments for Colleges and Universities	110	
Unconditional Municipal Grants	413	
Sub-Total		823
Operation of Hospitals	89	
Other Health Services	48	
Family Benefits Assistance	56	
Other Social Service Payments	40	
Extra Fire Fighting	40	
TSF and TSAF - Provincial Contributions	31	
Skills Training	26	
GO Transit Bi-level Cars	14	
Environmental Clean-up and Protection	12	
French Language Services Act Implementation	11	
New Agricultural Programs	10	
Sub-Total		377
Decreases:		
Capital Project Delays	(127)	
OHIP - Payments	(83)	
Farm Income Stabilization	(36)	
Public Debt Interest	(22)	
Various Other (net)	(109)	
Sub-Total		(377)
Net Change		**823**

The 1988-89 expenditure savings and constraints target of $500 million was achieved through careful monitoring, management and control of expenditures by Management Board in cooperation with all ministries.

Payroll allocations were constrained by two per cent, direct operating costs by six per cent and ministries were asked to identify savings in other programs for the balance. Selected operations such as courts administration, psychiatric hospitals, correctional institutions and the OPP were exempt from these reductions. In achieving the target, administrative cost reductions of $119 million were secured, with the balance of $381 million being realized across all government programs including year-end savings.

Every ministry made a contribution to the savings target. Table 5 below provides a list of the amounts contributed by each ministry.

Expenditure Savings and Constraints Secured in 1988-89 (Target $500 million) **Table 5**
($ million)

Agriculture and Food	29
Attorney General	4
Office Responsible for Native Affairs	1
Citizenship	4
Colleges and Universities	16
Community and Social Services	32
Consumer and Commercial Relations	7
Correctional Services	8
Culture and Communications	5
Education	4
Energy	6
Environment	14
Financial Institutions	1
Government Services	17
Health	112
Housing	19
Industry, Trade and Technology	24
Intergovernmental Affairs	1
Labour	6
Office Responsible for Women's Issues	2
Legislative and Executive Offices	2
Management Board	2
Municipal Affairs	4
Natural Resources	21
Northern Development and Mines	10
Office Responsible for Senior Citizens Affairs	3
Revenue	15
Skills Development	23
Solicitor General	7
Tourism and Recreation	9
Transportation	29
Treasury and Economics	63
Total	**500**

1989-90 Outlook

1989-90 Fiscal Plan

The fiscal plan for 1989-90 projects the deficit at $577 million. This deficit is $911 million lower than the 1988-89 interim forecast, the lowest level since 1974-75.

1989-90 Fiscal Plan **Table 6**
($ million)

	Interim 1988-89	Budget Plan 1989-90	Per Cent Change
Revenue	37,222	40,713	9.4
Expenditure	38,710	41,290	6.7
Deficit	1,488	577	

The Province is expecting to achieve a net cash surplus of $478 million in 1989-90. This is an improvement of $572 million from the $94 million interim estimate for net cash requirements in 1988-89.

Ontario's planned operating surplus will increase by $989 million to $2,659 million in 1989-90.

1989-90 Operating Position **Table 7**
($ million)

	Interim 1988-89	Budget Plan 1989-90
Revenue	37,222	40,713
Current Expenditure	35,552	38,054
Operating Surplus	1,670	2,659

1989-90 Revenue

1989-90 revenue is forecast at $40,713 million, an increase of 9.4 per cent or $3,491 million above the interim 1988-89 level.

Base revenue growth is expected to contribute approximately $2,923 million of the increase as a result of continued strength in the economy. Budget revenue measures are expected to yield a further $568 million.

Personal Income Tax payments are estimated to reach a level of $12,636 million in 1989-90. This amount includes $14 million in revenue measures and Ontario's estimate of $945 million for adjustments in respect of current and prior tax years.

Retail Sales Tax revenue is estimated at $8,679 million. This level reflects $48 million in revenue measures and continued strength in the economy and consumer spending.

Corporations Tax revenue is forecast to grow by $605 million to a level of $4,827 million. This level includes a cost of $3 million in respect of pollution control equipment under the Current Cost Adjustment. The forecast is based on a continued healthy corporate profit performance and the maturing impacts of tax reform.

The new Employer Health Levy is estimated to total $549 million in 1989-90.

Revenues from non-taxation sources are estimated at $5,034 million, a decrease of $86 million from the 1988-89 interim level. The forecast includes a decrease of $494 million from discontinuing OHIP premiums and an increase of $162 million from fees and licences revenue measures.

Payments from the federal government are estimated to increase by 6.9 per cent to $5,469 million, even though Established Programs Financing cash payments, which comprise the largest share of federal transfers, are projected to increase by only 0.1 per cent to $2,676 million. The increase of 16.2 per cent in the estimate of Canada Assistance Plan payments is based on higher planned levels of Ontario spending on cost-shared social assistance programs including funding for programs stemming from the measures taken to respond to the recommendations of the Social Assistance Review Committee.

Details of 1989-90 revenues are found in Table C2.

1989-90 Expenditure

Provincial expenditure in 1989-90 is estimated at $41,290 million, an increase of 6.7 per cent over the interim 1988-89 level. This includes $410 million in advance payments of 1990-91 capital grants for colleges, universities and school boards.

Major funding increases are planned for the ministries of Community and Social Services, Health, Housing and Transportation. Expenditure growth in these four ministries will exceed $2.4 billion in 1989-90 over the interim 1988-89 level. The large increases in funding for the ministries of Community and Social Services and Transportation are in part associated with major new initiatives in response to the Social Assistance Review Committee report and the introduction of the Transportation Capital Program. Significant increases in the Ministry of Health will provide improved ongoing funding for hospitals, OHIP, the Ontario Drug Benefit Plan and community-based health services. The ongoing cost to the Government of its existing commitments to the non-profit housing sector is the major reason for increased Ministry of Housing expenditures.

For 1989-90, the target for expenditure savings and constraints has been set at $200 million. This amount is reflected in the overall expenditure plan.

Housing Development Fund

The table below reports on the status of the Housing Development Fund, comparing capital expenditures on housing-related activities with revenues from land sales. The actual flows for 1988-89 and a forecast for 1989-90 are detailed in Table 8.

Housing Development Fund **Table 8**
($ million)

	Interim 1988-89	Estimated 1989-90
Balance at Beginning of Year	0	18
Land Sale Proceeds	45	30
Less: Expenditures on Approved Projects	27	48
Balance at End of Year	18	0

Borrowing and Debt Management

In 1988-89, the Province's financing requirements were borrowed from the Teachers' Superannuation Fund (TSF). The Province did not borrow any funds from the Canada Pension Plan (CPP) for its own purposes.

In 1989-90, the Province expects a net cash surplus of $478 million since net cash inflows of $1,055 million, mainly from net deposits of the Public Service Superannuation Fund (PSSF) and the Superannuation Adjustment Fund (SAF) in the period of April 1 - December 31, 1989, exceed the deficit of $577 million.

The Province is expected to borrow $1 billion from the TSF between April 1, 1989 and December 31, 1989. TSF funds and the net cash surplus will be used to retire $454 million in maturing debt, of which $446 million will be applied to reduce Ontario's CPP debt, and will allow the Province to retire its Treasury bills of $650 million. Liquid reserves are expected to increase by $374 million.

As discussed in Budget Paper F, the teachers' and public service pension plans will be permitted to invest all new net cash flows (receipts minus disbursements) in public capital markets from January 1, 1990.

The Province will require no borrowing from the CPP for its own purposes in 1989-90. The estimated $1.2 billion in CPP funds to be offered to Ontario will be available for the Homes Now program and school board capital borrowing. As in previous years, residual CPP funds will be offered to Ontario Hydro. In 1988-89 Ontario borrowed $589 million from the CPP for Ontario Hydro.

As a result of the continued reduction in financing needs and increased debt retirements in recent years, the growth of the Province's own-purpose debt has slowed. Total debt is projected to grow by 2.4 per cent in 1989-90, well below the growth rate of Provincial Gross Domestic Product of 8.5 per cent. Interest costs will take up a declining portion of revenue in 1989-90 for the fourth consecutive year. Public debt interest as a percentage of revenue is projected to decline to 10.5 per cent in 1989-90, down from 10.8 per cent in 1988-89 and well below the peak of 12.4 per cent experienced in 1985-86.

Ontario Hydro's borrowing requirements in 1989 will be $2.9 billion, including $1.7 billion to refinance maturing debt. Hydro's 1989 borrowing plan has been reviewed by the Government and will be monitored on a regular basis.

Comparative Fiscal Measures

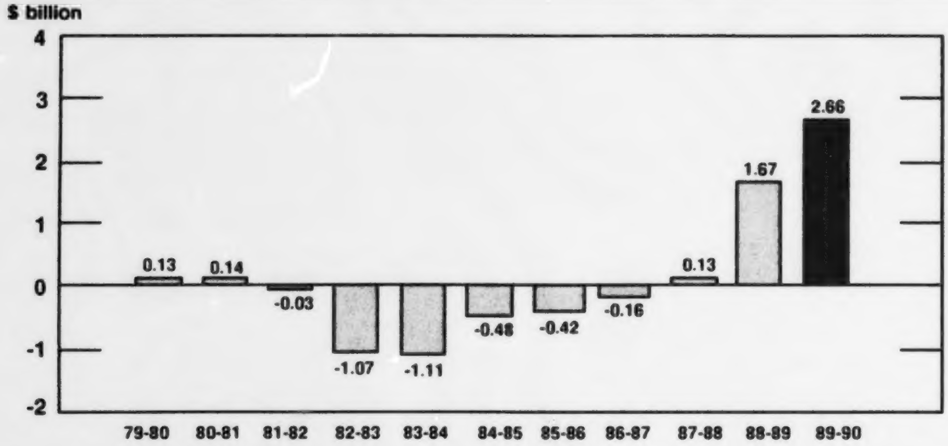
Ontario's fiscal performance can be assessed in terms of a number of commonly used indicators. A ten-year review of selected indicators is found in Table C8.

Ontario's Operating Position

The operating position is the difference between revenues and current expenditures.

Ontario is projecting an operating surplus of $2,659 million in 1989-90, an increase of $989 million over the 1988-89 interim level of $1,670 million. This surplus will enable the Province to finance 82 per cent of its 1989-90 capital program from its current revenues.

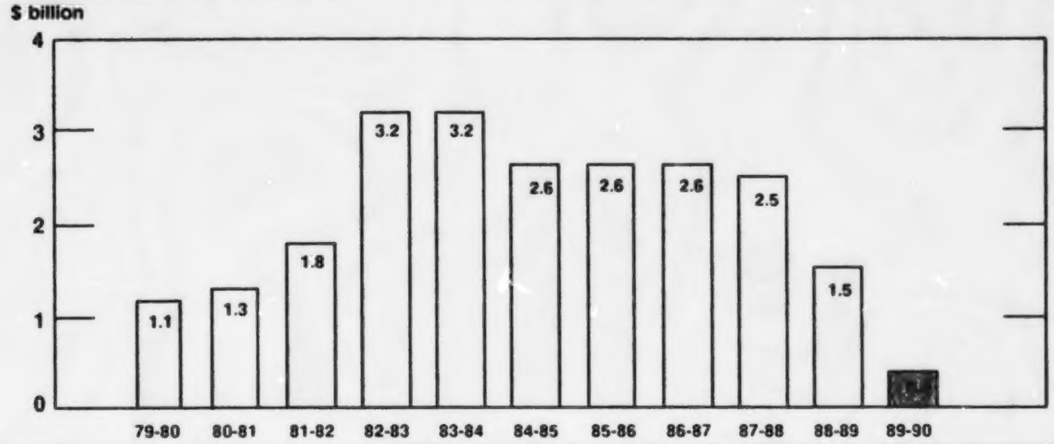
Ontario's Operating Position
1979-80 to 1989-90



Ontario's Deficit

The Province's deficit reached a level of $3,189 million in 1982-83, but has since declined to $1,488 million in 1988-89, and is forecast at $577 million in 1989-90, its lowest level in 15 years.

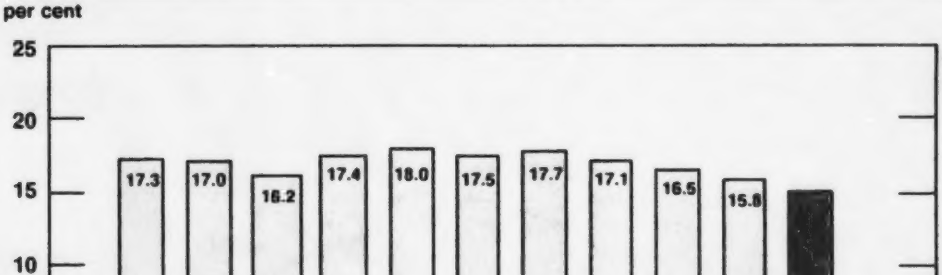
Ontario's Deficit
1979-80 to 1989-90



Debt Measures

Ontario's total debt is expected to be $39.9 billion by the end of 1989-90. Measured as a share of the economy, the debt burden has decreased over the past several years. From a peak of 18.0 per cent of provincial gross domestic product in 1983-84, total debt declined to 15.8 per cent in 1988-89. In 1989-90 total debt as a share of the economy is expected to decline further to 14.9 per cent, the lowest ratio achieved since 1974-75.

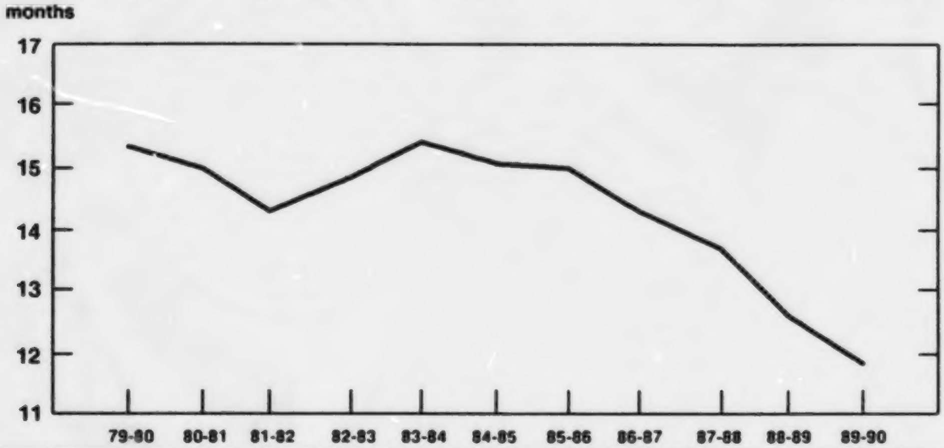
Total Debt as a Share of the Economy
1979-80 to 1989-90



Another measure of Ontario's ability to carry its debt is the number of months of revenue that would be required to repay the total debt. This number has fallen steadily in the past six years, from 15.4 months in 1983-84 to 12.6 months in 1988-

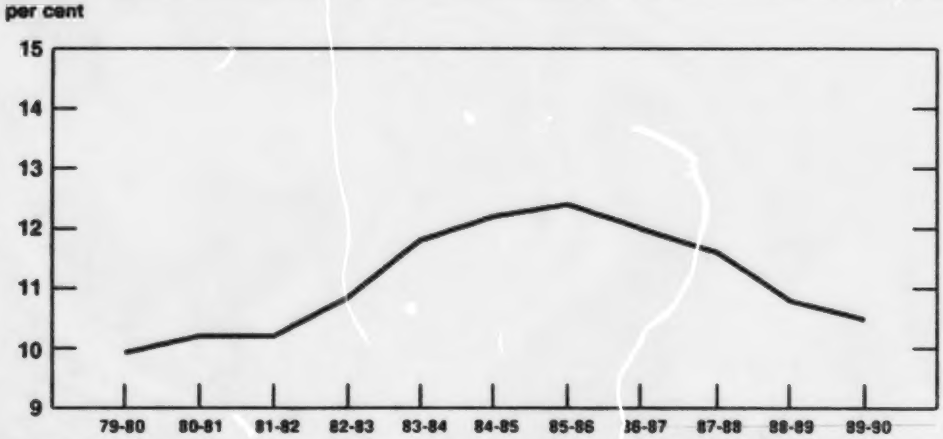
89. In 1989-90, it is expected to fall further to 11.8 months, lower than in any other year since 1970-71.

Months of Revenue to Repay Total Debt
1979-80 to 1989-90



Ontario's public debt interest costs are forecast at $4,290 million in 1989-90. Ontario's debt charges expressed as a per cent of revenue continue to decline from a high of 12.4 per cent in 1985-86 to 10.5 per cent in 1989-90. By comparison, federal public debt charges are currently projected at 35 per cent of federal revenue.

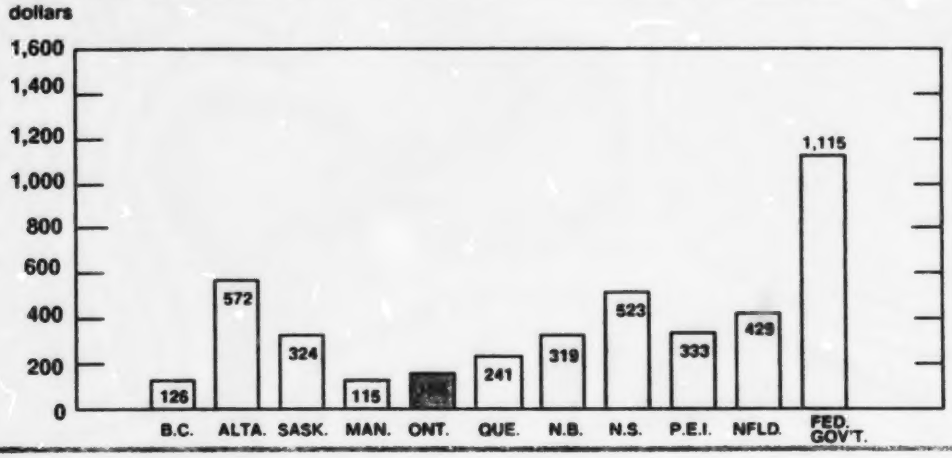
Public Debt Interest as a Per Cent of Revenue
1979-80 to 1989-90



Interprovincial Comparisons

On an interprovincial basis, Ontario's current measures of fiscal performance compare favourably. For instance, at $158 per person, Ontario had the third lowest deficit per capita among provinces in 1988-89.

Deficits Per Capita
1988-89



Financial Tables

Statement of Financial Transactions Table C1

($ million)

	1987-88	Interim 1988-89	Budget Plan 1989-90
Revenue	32,453	37,222	40,713
Expenditure	34,942	38,710	41,290
Deficit	2,489	1,488	577
Other Accounts (net)			
Pension and Related Benefit Funds (C4)	824	906	741
Loans, Advances and Investments (C5)	225	100	5
Special Purpose Accounts (C6)	154	388	309
Total Other Accounts (net)	1,203	1,394	1,055
Net Cash Surplus (Requirements)	**(1,286)**	**(94)**	**478**
Financing			
Non-Public Borrowing			
Canada Pension Plan	42	-	-
Teachers' Superannuation Fund	1,620	1,620	1,000
Retirements	(562)	(420)	(454)
Net Non-Public Borrowing	1,100	1,200	546
Public Borrowing			
Treasury Bills/Debenture Issues	-	-	-
Retirements	(199)	(500)	(650)
Net Public Borrowing	(199)	(500)	(650)
Decrease (Increase) in Liquid Reserves	385	(606)	(374)
Total Financing	**(1,286)**	**(94)**	**478**

Revenue **Table C2**

($ million)

	1987-88	**Interim 1988-89**	**Budget Plan 1989-90**
Taxation Revenue			
Personal Income Tax[1]	9,859	11,687	12,636
Retail Sales Tax	6,305	7,776	8,679
Reciprocal Taxation	91	108	115
Corporations Tax	3,600	4,222	4,827
Employer Health Levy	–	–	549
Mining Profits Tax	13	135	150
Gasoline Tax	1,035	1,230	1,394
Fuel Tax	291	309	345
Tobacco Tax	639	750	646
Land Transfer Tax	477	631	632
Race Tracks Tax	75	79	83
Public Utilities Income Tax	90	54	85
Other Taxation	5	7	69
	22,480	26,988	30,210
Other Revenue			
OHIP Premiums	1,723	1,744	1,301
LCBO Profits	651	645	608
Vehicle/Driver Registration Fees	506	509	587
LLBO Fees, Licences and Permits	351	399	450
Other Fees and Licences	249	274	398
Lottery Profits	470	485	500
Interest on Investments	295	263	265
Royalties	177	187	206
Utility Service Charges	145	136	137
Sales and Rentals	96	130	121
Fines and Penalties	104	117	187
Recoveries	40	46	26
Reimbursements	148	145	136
Miscellaneous	34	40	112
	4,989	5,120	5,034
Payments from the Federal Government			
Established Programs Financing	2,773	2,674	2,676
Extended Health Care Services	436	463	492
Canada Assistance Plan	1,306	1,497	1,739
National Training Act	131	114	116
Bilingualism Development	50	48	56
Young Offenders	64	53	78
Vocational Rehabilitation	33	34	61
Other	191	231	251
	4,984	5,114	5,469
Total	**32,453**	**37,222**	**40,713**

See page 70 for accompanying notes.

Expenditure[2] **Table C3**

($ million)

Ministry	1987-88	Interim 1988-89	Budget Plan 1989-90
Agriculture and Food	501	463	491
Attorney General	377	412	500
Office Responsible for Native Affairs	3	4	6
Citizenship	28	35	42
Colleges and Universities	2,300	2,457	2,636
Community and Social Services	3,690	4,235	4,971
Consumer and Commercial Relations	126	146	156
Correctional Services	402	410	454
Culture and Communications	213	227	267
Education	4,290	4,573	4,900
Energy	30	28	34
Environment	255	279	307
Financial Institutions	31	37	41
Government Services	395	453	501
Health	11,330	12,462	13,714
Housing	241	313	408
Industry, Trade and Technology	144	142	165
Technology Fund	20	61	85
Intergovernmental Affairs	9	8	9
Labour	102	119	139
Office Responsible for Women's Issues	17	16	18
Legislative and Executive Offices	10	11	12
Management Board	37	38	48
Capital Account	2,623	2,748	3,336
Municipal Affairs	904	951	957
Natural Resources	488	527	512
Northern Development and Mines	85	102	115
Office for Disabled Persons	4	5	6
Office Responsible for Senior Citizens Affairs	5	5	7
Revenue	786	798	850
Skills Development	382	402	433
Solicitor General	381	428	453
Tourism and Recreation	129	137	143
Transportation	658	674	726
Treasury and Economics	28	30	32
Economic Development Projects	34	32	41
Public Debt Interest	3,771	4,028	4,290
Board of Internal Economy	113	91	98
Advance Payments:			
Capital Account	–	410	–
Municipal Affairs	–	413	(413)
Expenditure Savings and Constraints	–	–	(200)
Total	**34,942**	**38,710**	**41,290**

See page 70 for accompanying notes.

Expenditure[2] - Capital Distributed **Table C3A**
($ million)

Ministry	1987-88	Interim 1988-89	1989-90		
			Total	Operating	Capital
Agriculture and Food	566	511	527	491	36
Attorney General	382	415	506	500	6
Office Responsible for Native Affairs	3	4	6	6	–
Citizenship	38	44	51	42	9
Colleges and Universities	2,391	2,558	2,746	2,636	110
Community and Social Services	3,775	4,307	5,056	4,971	85
Consumer and Commercial Relations	135	146	156	156	–
Correctional Services	402	410	454	454	–
Culture and Communications	238	255	317	267	50
Education	4,436	4,810	5,210	4,900	310
Energy	43	38	43	34	9
Environment	385	414	483	307	176
Financial Institutions	31	37	41	41	–
Government Services	542	619	740	501	239
Health	11,532	12,565	13,904	13,714	190
Housing	333	421	537	408	129
Industry, Trade and Technology	173	155	183	165	18
Technology Fund	20	61	85	85	–
Intergovernmental Affairs	9	8	9	9	–
Labour	107	119	139	139	–
Office Responsible for Women's Issues	17	16	18	18	–
Legislative and Executive Offices	10	11	12	12	–
Management Board	37	38	48	48	–
Municipal Affairs	922	969	978	957	21
Natural Resources	552	576	570	512	58
Northern Development and Mines	234	287	322	115	207
Office for Disabled Persons	6	7	8	6	2
Office Responsible for Senior Citizens Affairs	5	5	9	7	2
Revenue	786	798	850	850	–
Skills Development	385	402	433	433	–
Solicitor General	407	448	475	453	22
Tourism and Recreation	169	177	191	143	48
Transportation	1,914	2,066	2,313	726	1,587
Treasury and Economics	28	30	32	32	–
Economic Development Projects	45	41	63	41	22
Public Debt Interest	3,771	4,028	4,290	4,290	–
Board of Internal Economy	113	91	98	98	–
Advance Payments:					
Colleges and Universities	–	110	–	–	–
Education	–	300	–	–	–
Municipal Affairs	–	413	(413)	(413)	–
Expenditure Savings and Constraints	–		(200)	(100)	(100)
Total	**34,942**	**38,710**	**41,290**	**38,054**	**3,236**

See page 70 for accompanying notes.

Pension and Related Benefit Funds

Table C4

($ million)

	1987-88	Interim 1988-89	Budget Plan 1989-90
Deposits			
Public Service Superannuation Fund	789	873	724
Superannuation Adjustment Fund	345	386	317
Provincial Judges Benefits Fund	9	9	11
OPP Supplementary Benefit Account	7	8	9
Other Pensions	8	8	9
Total Deposits	**1,158**	**1,284**	**1,070**
Payments			
Public Service Superannuation Fund	206	231	191
Superannuation Adjustment Fund	119	138	128
OPP Supplementary Benefit Account	5	5	5
Provincial Judges Benefits Fund	2	2	2
Other Pensions	2	2	3
Total Payments	**334**	**378**	**329**
Net Deposits	**824**	**906**	**741**

Loans, Advances and Investments **Table C5**
($ million)

	1987-88	Interim 1988-89	Budget Plan 1989-90
Repayments			
Ontario Development Corporations	71	66	42
School Boards	45	40	34
Environmental Projects	34	27	21
Tile Drainage Debentures	23	23	21
Public Hospitals	8	9	10
Ontario Mortgage Corporation	144	2	1
Other	44	39	25
Repayments of Loans	**369**	**206**	**154**
Loans, Advances and Investments			
Development Loans	106	67	83
Environmental Projects	20	24	46
Tile Drainage Debentures	15	12	14
Economic Development Projects	3	3	5
Other	–	–	1
Loans, Advances and Investments	**144**	**106**	**149**
Net Repayments	**225**	**100**	**5**

Special Purpose Accounts **Table C6**
($ million)

	1987-88	Interim 1988-89	Budget Plan 1989-90
Province of Ontario Savings Office	161	386	285
Other	(7)	2	24
Net Special Purpose Accounts	**154**	**388**	**309**

Transfers to Local Governments and Agencies — Table C7

($ million)

	1987-88	Interim 1988-89	Budget Plan 1989-90
Conditional Transfers			
Grants to School Boards			
General Legislative Grants	3,644	3,914	4,153
School Capital Grants	147	238	310
Transportation			
Roads	624	678	678
Transit	322	337	393
Other[3]	10	13	11
Social Assistance			
General Welfare Assistance	613	674	766
Homes for the Aged	287	269	292
Child Welfare	214	220	262
Day Nurseries	127	168	198
Other	29	50	53
Environment	138	148	184
Health			
Local Health Units	132	149	164
Other	41	46	55
Agriculture	161	168	146
Housing	67	85	106
Conservation Authorities	46	46	49
Library Boards	37	39	41
Recreation	33	32	38
Municipal Affairs	21	21	25
Other	41	45	58
	6,734	7,340	7,982
Unconditional Transfers			
Payments-in-lieu of Taxes	96	104	108
Unconditional Grants	814	857	857
Unconditional Grants - Other	10	14	14
	920	975	979
TOTAL TRANSFERS ALLOCATED	7,654	8,315	8,961
Advances[4]	-	713	(413)
Total Transfers	7,654	9,028	8,548

See page 70 for accompanying notes.

Ten-Year Review of Selected Financial and Economic Statistics

($ million)

	1980-81	1981-82	1982-83	1983-84
Financial Transactions				
Revenue	15,585	17,914	19,367	21,412
Expenditure	16,882	19,694	22,556	24,565
Deficit	1,297	1,780	3,189	3,153
Other Accounts (Net)	494	277	711	864
Net Cash Surplus (Requirements)	(803)	(1,503)	(2,478)	(2,289)
Total Debt (Excluding Ontario Hydro)	19,512	21,354	23,955	27,406
Gross Domestic Product (GDP) at Market Prices[5]	114,994	131,831	137,310	151,945
Personal Income[5]	94,411	110,033	122,443	131,947
Population - June (000s)	8,570	8,625	8,703	8,798
Total Debt per Capita (dollars)	2,277	2,476	2,752	3,115
Personal Income per Capita (dollars)	11,016	12,757	14,069	14,997
Expenditure as a per cent of GDP	14.7	14.9	16.4	16.2
Public Debt Interest as a per cent of Revenue	10.2	10.2	10.9	11.8
Total Debt as a per cent of GDP	17.0	16.2	17.4	18.0
Cumulative Net Borrowing for Ontario Hydro				
U.S.	4,379	5,573	6,058	6,487
C.P.P.	500	1,000	1,000	1,000
Contingent Liabilities (mainly Ontario Hydro)	8,553	9,284	11,122	12,711

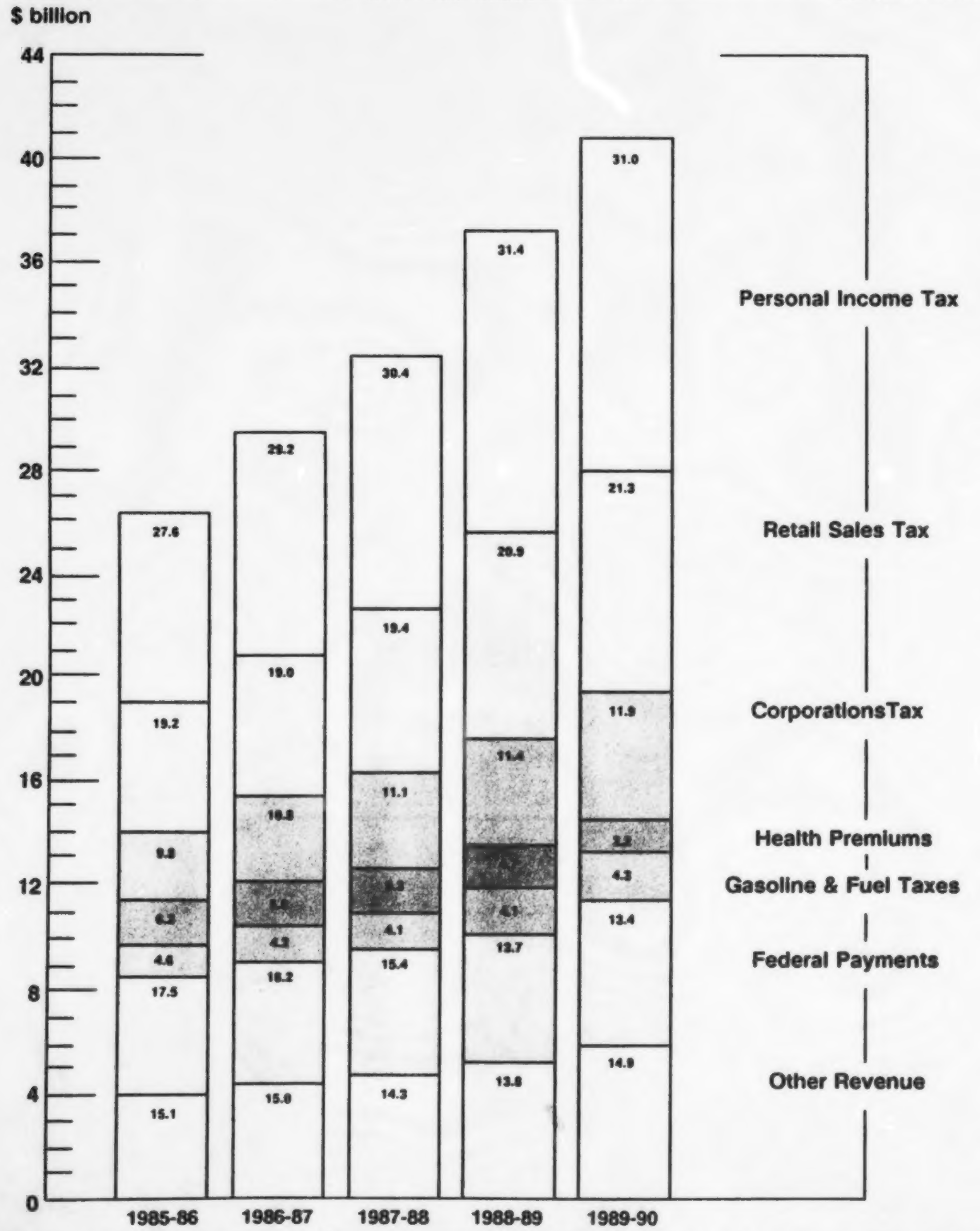
See page 70 for accompanying notes.

Table C8

1984-85	1985-86	1986-87	1987-88	Interim 1988-89	Budget Plan 1989-90
23,893	26,240	29,544	32,453	37,222	40,713
26,452	28,854	32,178	34,942	38,710	41,290
2,559	2,614	2,634	2,489	1,488	577
857	1,009	1,286	1,203	1,394	1,055
(1,702)	(1,605)	(1,348)	(1,286)	(94)	478
30,041	32,904	35,103	36,981	38,975	39,921
171,499	185,944	205,247	224,674	246,558	267,497
146,193	158,716	171,253	187,157	203,586	220,840
8,902	9,006	9,113	9,265	9,427	9,599
3,375	3,654	3,852	3,991	4,134	4,159
16,422	17,623	18,792	20,200	21,596	23,007
15.4	15.5	15.7	15.6	15.7	15.4
12.2	12.4	12.0	11.6	10.8	10.5
17.5	17.7	17.1	16.5	15.8	14.9
7,206	7,189	6,667	6,033	5,692	N/A
1,000	1,000	1,119	1,508	2,097	N/A
14,220	15,963	17,603	18,595	20,500	N/A

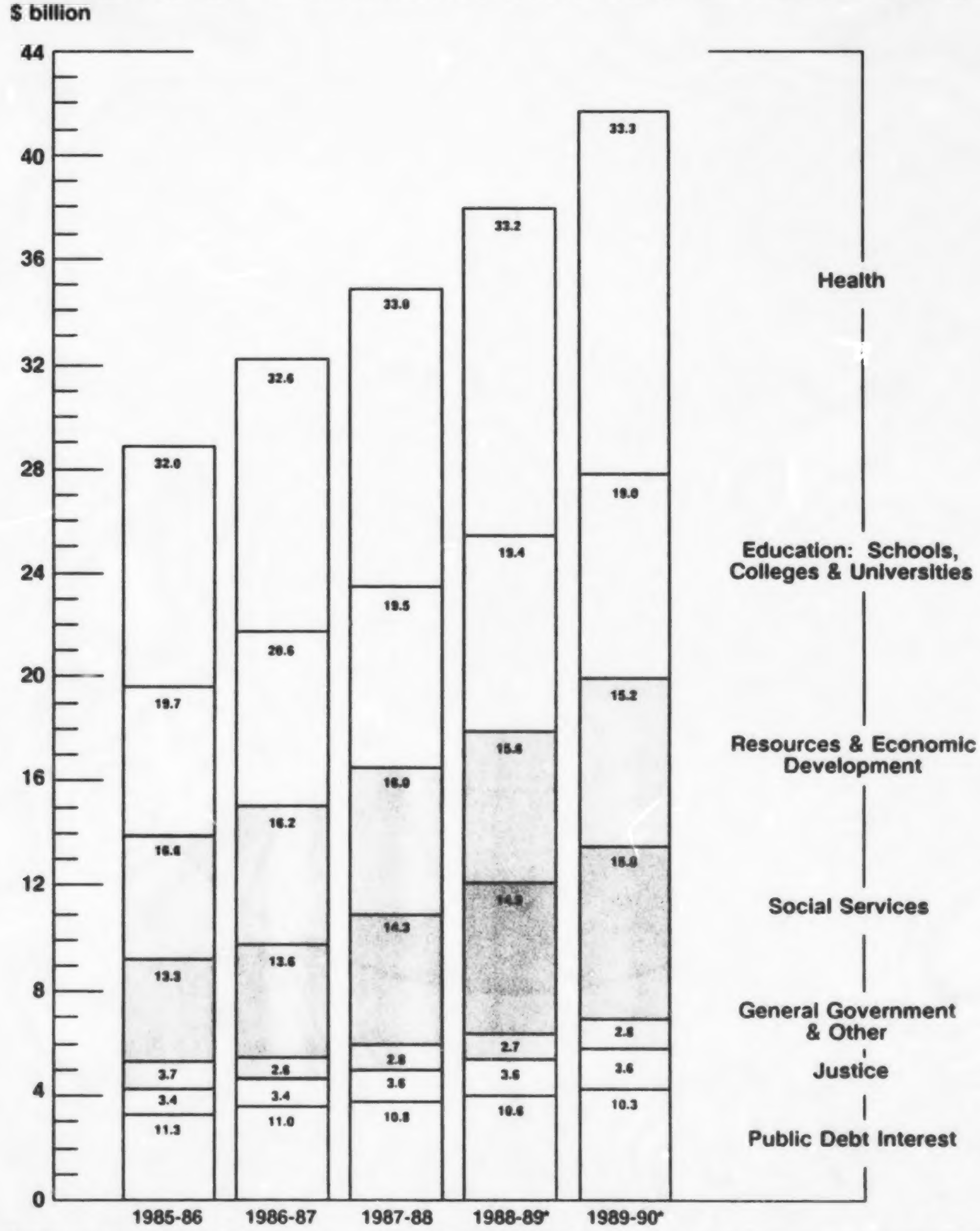
Revenue Sources
1985-86 to 1989-90

Chart C1



Expenditure Functions
1985-86 to 1989-90

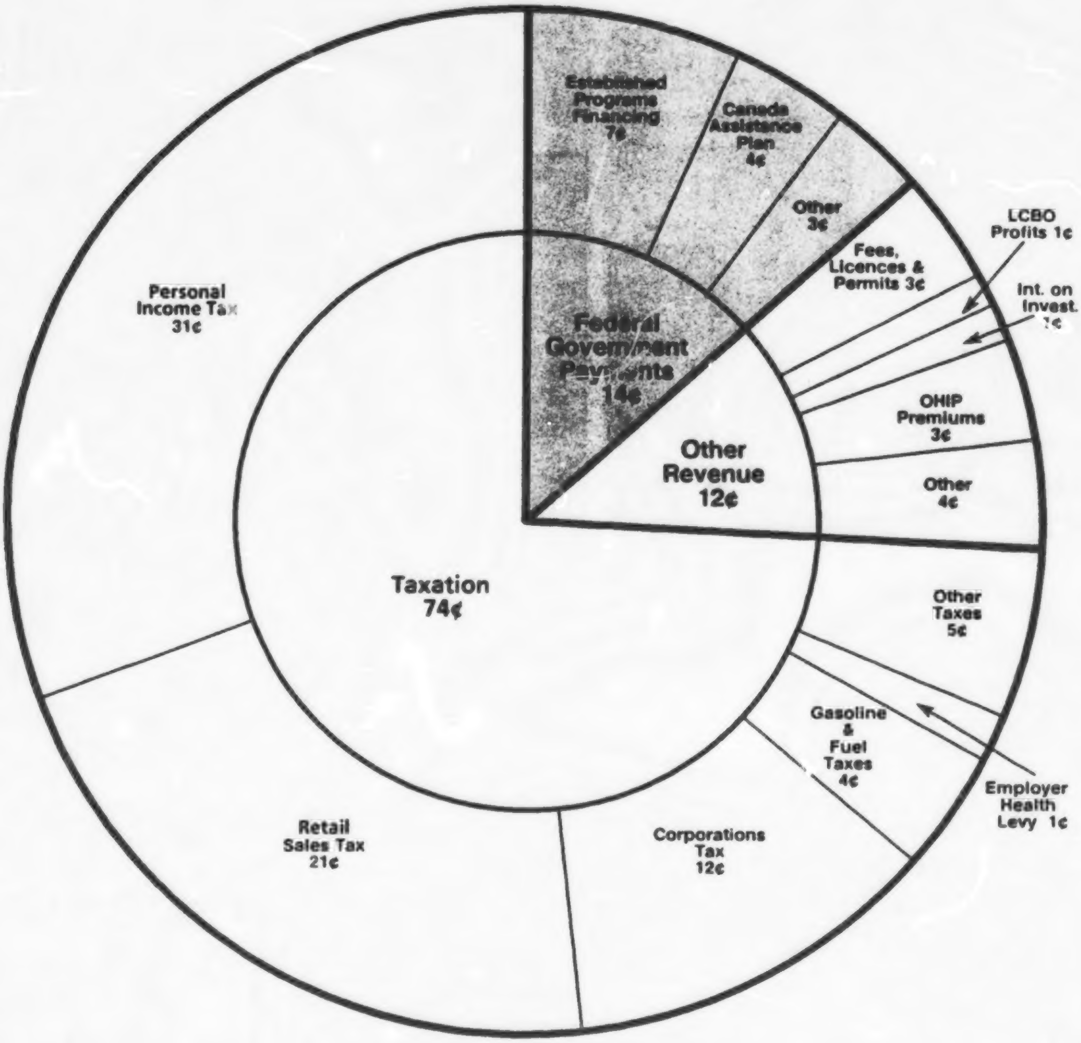
Chart C2



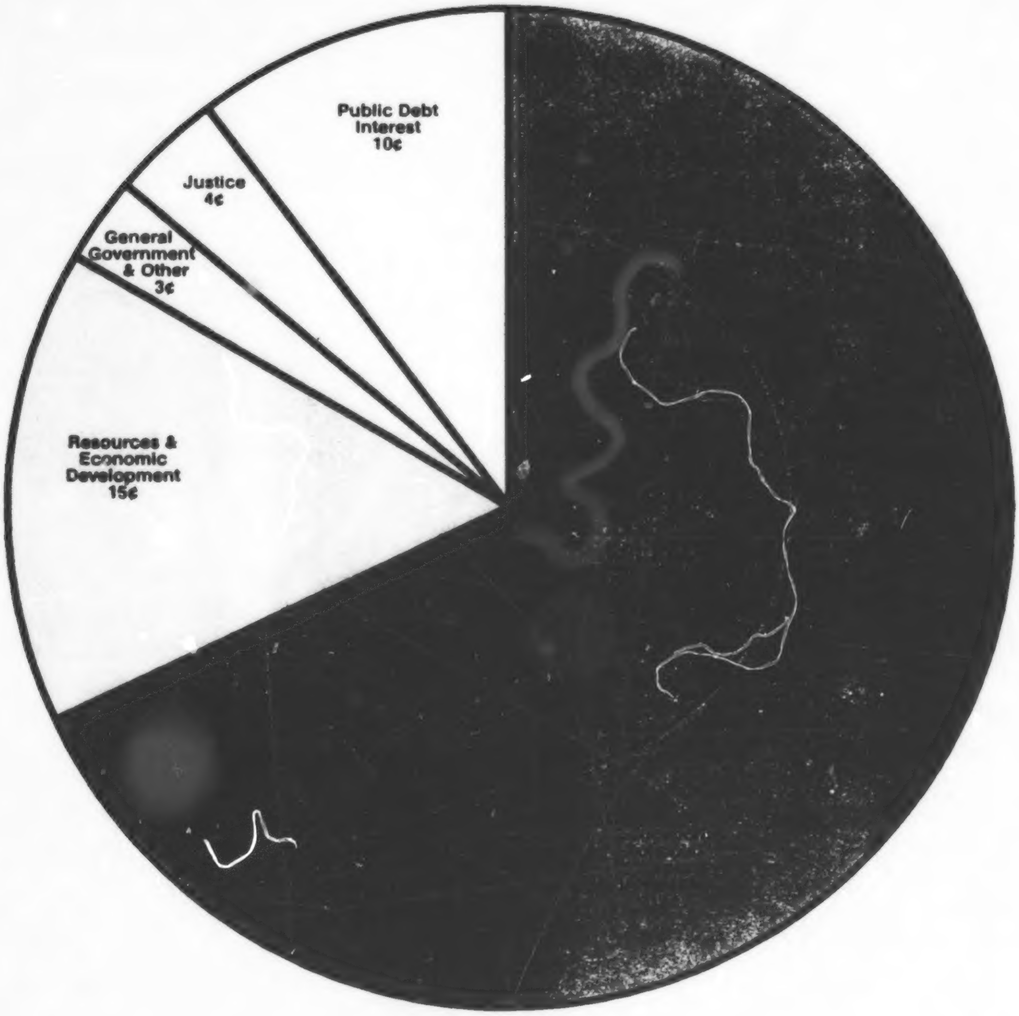
* Excludes advance payments.

The Budget Dollar: Revenue, 1989-90

Chart C3



The Budget Dollar: Expenditure, 1989-90 **Chart C4**



Notes

1. Net of tax credits of $280 million for 1987-88, $360 million for 1988-89 and $444 million for the 1989-90 fiscal year. Includes speed-up payments of $541 million for 1987-88 and $249 million for 1988-89.
2. Comparative figures are restated to conform with current Government structure.
3. Includes additional funding for northern roads from the Ministry of Northern Development and Mines.
4. For 1988-89, $300 million for school capital grants and $413 million for Unconditional Grants were advanced from 1989-90. For 1989-90, the $300 million allocated for school capital grants will be advanced from 1990-91.
5. Gross Domestic Product (GDP) and Personal Income are calculated on a calendar year basis. The amounts appearing in a fiscal year column are for the preceding calendar year.

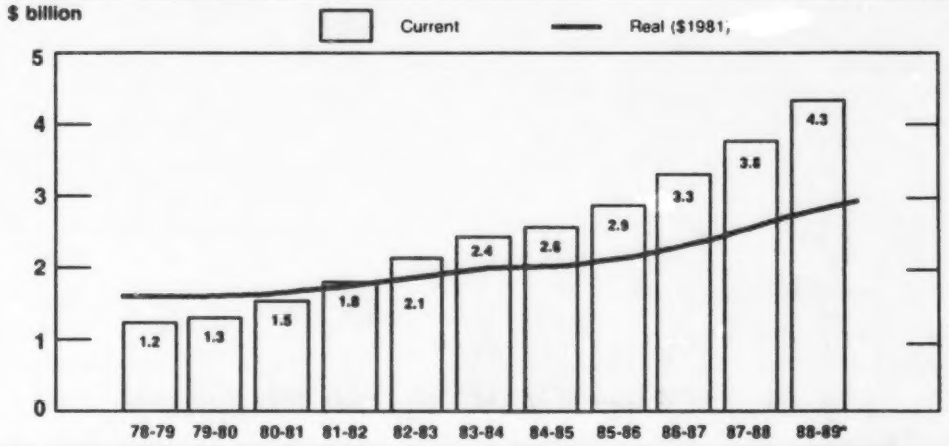
Budget Paper D: Expenditure Profile of Ministry of Community and Social Services

Ministry Overview

In 1978-79, expenditures by the Ministry of Community and Social Services (MCSS) were $1.2 billion. By 1988-89, MCSS expenditures had grown to $4.3 billion and were exceeded only by those of the Ministries of Health and Education.

MCSS Expenditures
1978-79 to 1988-89

Chart 1

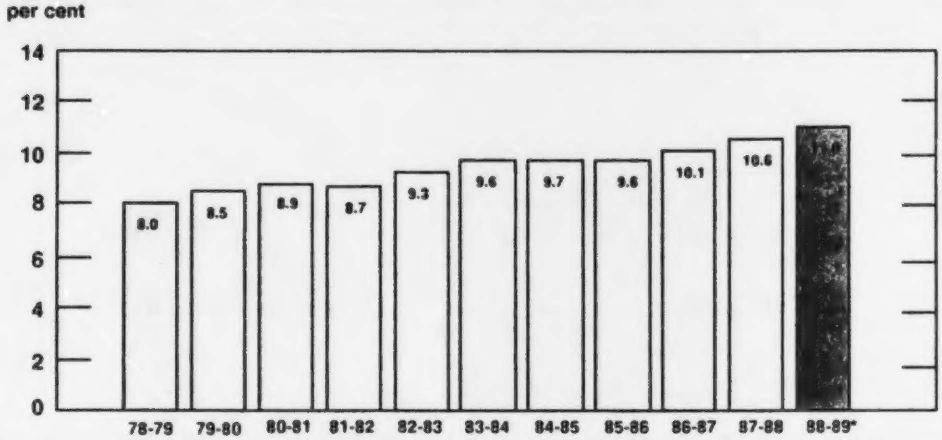


Sources: Ontario Ministry of Treasury and Economics.
Statistics Canada.

* Interim

Expenditures by MCSS increased at an average annual rate of 13 per cent between 1978-79 and 1988-89. This rate of growth was higher than that experienced by the Ministry of Health (12 per cent), and well above that experienced by the Government as a whole (10 per cent) over the same period. As a share of total Government spending, MCSS expenditures increased from 8 per cent to 11 per cent over the period.

MCSS Share of Government Expenditures 1978-79 to 1988-89 — Chart 2



Source: Ontario Ministry of Treasury and Economics.
* Interim

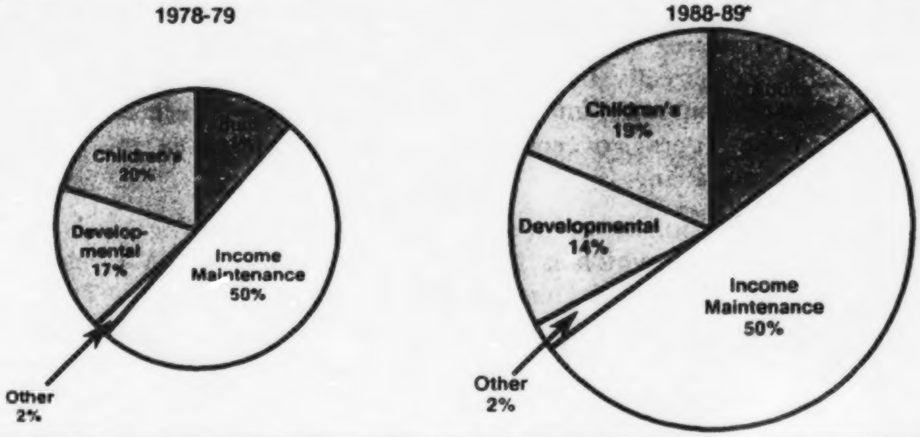
This profile concentrates on the four major program areas of MCSS. The Income Maintenance Program provides income support to those in financial need, while the Adults' Services, Children's Services, and Developmental Services Programs provide a variety of social services to different client groups. The Appendix provides an overview of services available through MCSS and of the different client groups which benefit from these programs.

The Income Maintenance Program is the largest, with 1988-89 expenditures of $2.2 billion. In 1988-89, $801 million was spent through the Children's Services Program, $622 million through the Adults' Services Program, and $620 million through the Developmental Services Program. Expenditures on salaries, wages and other direct operating costs which are specific to each of the major program areas are included in the total expenditure figures for each program.

In both 1978-79 and 1988-89 the Income Maintenance Program accounted for 50 per cent of total MCSS expenditures. The share of total MCSS expenditures accounted for by the Adults' Services Program increased between 1978-79 and 1988-89 from 11 per cent to 14 per cent. This was due in part to the expansion of community-based services. There was a corresponding decrease in the shares of total Ministry spending accounted for by the other two major program areas. The share of Children's Services fell from 20 per cent to 19 per cent between 1978-79 and 1988-89, while the share of Developmental Services fell from 17 per cent to 14 per cent.

Distribution of MCSS Expenditures by Major Program Area 1978-79 and 1988-89

Chart 3



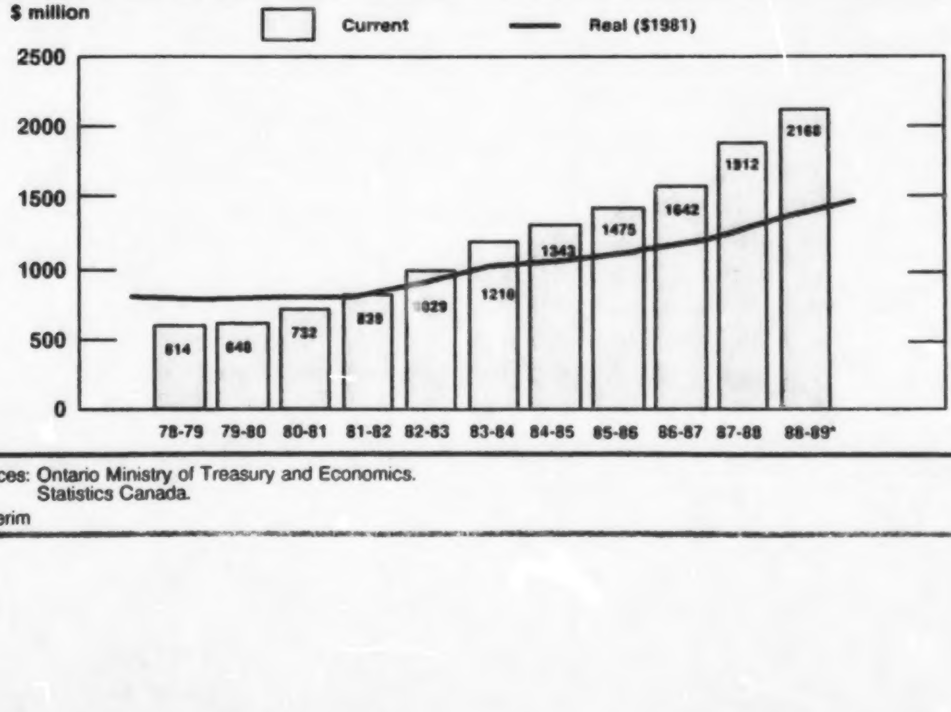
Source: Ontario Ministry of Treasury and Economics.
Note: Percentages may not add due to rounding.
* Interim

The Income Maintenance Program

Expenditures on the Income Maintenance Program increased between 1978-79 and 1988-89 from $614 million to $2.2 billion, or at an average annual rate of 13 per cent.

Expenditures on Income Maintenance 1978-79 to 1988-89

Chart 4



Sources: Ontario Ministry of Treasury and Economics.
Statistics Canada.
* Interim

The Income Maintenance Program has two major components. Provincial Allowances and Benefits provide income assistance to sole support parents, disabled persons, and other individuals in need of longer term assistance. This component of Income Maintenance falls under the Family Benefits Act and, as a result, these expenditures are often referred to as FBA benefits. The FBA program is delivered directly by the Province. In 1988-89, total FBA benefits, excluding administration costs, amounted to $1.4 billion. These expenditures are cost-shared with the federal government on a 50:50 basis under the provisions of the Canada Assistance Plan.

The second major component of the Income Maintenance Program is Municipal Allowances and Benefits, which is generally referred to as GWA benefits since payments are made under the General Welfare Assistance Act. This program provides income assistance on an emergency or short-term basis to individuals who are unable to provide for themselves. The program is delivered by municipalities. In 1988-89, Provincial payments to municipalities in respect of GWA benefits, excluding administration costs, were $596 million. In general, the Province provides 80 per cent of the total benefits paid out to GWA recipients, with the remaining 20 per cent provided by the municipalities. The total cost of the program is shared with the federal government on a 50:50 basis.

For a detailed description of Ontario's social assistance system, the reader may wish to consult *Transitions*, the report of the Social Assistance Review Committee.

The continued growth of expenditures in the Income Maintenance Program during the post-recession years of the 1980s may seem paradoxical, since one would expect that in prosperous economic times the need for social assistance would decline. There are a number of factors, however, which account for this growth.

The number of individuals and families receiving FBA benefits increased from 114,000 in 1978-79 to an estimated 181,000 in 1988-89. Including the spouses and children of recipients, there were an estimated 347,000 FBA beneficiaries in 1988-89. Approximately 49 per cent of total FBA recipients (34 per cent of beneficiaries) are accounted for by disabled persons and another 42 per cent of recipients (60 per cent of beneficiaries) are accounted for by single parents.

The number of disabled persons receiving assistance increased for a variety of reasons. Recognition is being given to a broader range of disabilities. The life expectancy of the disabled has increased. An increasing number of disabled persons are living in the community, rather than in institutions, and thus are eligible to receive financial support through the FBA program. The number of single parents increased due to factors such as a rising divorce rate, a lower marriage rate, and a higher incidence of unwed mothers keeping their babies.

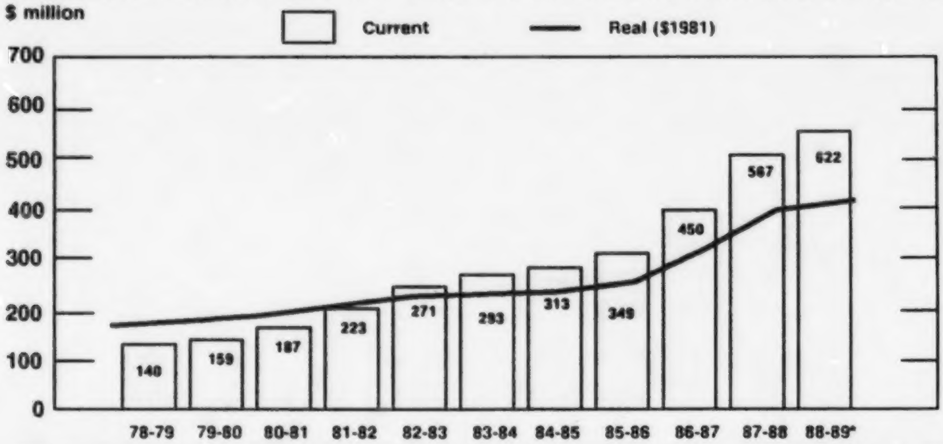
Income Maintenance expenditures also grew because of increases in the average level of benefits provided to social assistance recipients. Inflation and higher shelter costs are two important factors which caused the average benefit per recipient to increase. Benefit rates are usually increased each year to help compensate for changes in the cost of living. A general rate increase has been implemented on January 1 for each of the last seven years.

Shelter costs above a certain threshold rent level are currently subsidized at a rate of 80 per cent up to a maximum rent level. This shelter subsidy constitutes part of the assistance payments made under the FBA and GWA programs. Shelter subsidies to FBA and GWA recipients increased from $103 million to $269 million over the period 1984-85 to 1988-89, or at an average annual rate of 27 per cent.

The Adults' Services Program

Between 1978-79 and 1988-89, expenditures on the Adults' Services Program increased from $140 million to $622 million, or at an average annual rate of 16 per cent. This program area provides services to a wide range of client groups.

Expenditures on Adults' Services **Chart 5**
1978-79 to 1988-89



Sources: Ontario Ministry of Treasury and Economics.
Statistics Canada.

* Interim

The largest expenditure component of this program area is spending on municipal and charitable homes for the aged. Of the $622 million expenditure for Adults' Services in 1988-89, operating expenditures on these two types of homes for the aged accounted for $334 million, or 54 per cent. Total operating expenditures on homes for the aged increased from $108 million in 1978-79, representing an average annual rate of growth of 12 per cent.

In Ontario, there are 91 charitable and 89 municipal homes for the aged. These homes provide 13,600 residential care beds and 15,200 extended care beds. Residential care beds are for residents requiring less than 1.5 hours of direct nursing and personal care per day, while extended care beds are for residents requiring 1.5 hours or more of direct care per day. It should be noted that nursing homes also provide extended care beds. However, most nursing homes are privately owned and operated facilities, and receive funding through the Ministry of Health.

In recent years, a number of residential care beds have been converted to extended care beds. This conversion has been necessitated by the increasing average age of residents in homes for the aged and the need to provide more intensive nursing and personal care. The average age of residents is now 84, whereas ten years ago it was 79.

In 1985, $75 million in capital funding was approved for the upgrading of existing homes for the aged over a four-year period. Two-thirds of an additional $100 million will be used over the next six years to upgrade existing homes for the aged, while one-third will be used to make capital modifications to senior citizen housing projects so that community-based services can be provided to residents on a full-time basis.

The expansion of services to help seniors maintain an independent lifestyle in their own communities has been a major policy thrust of MCSS in recent years. Re-focussing the social service delivery system has expanded community-based services to adults, children and persons with developmental handicaps.

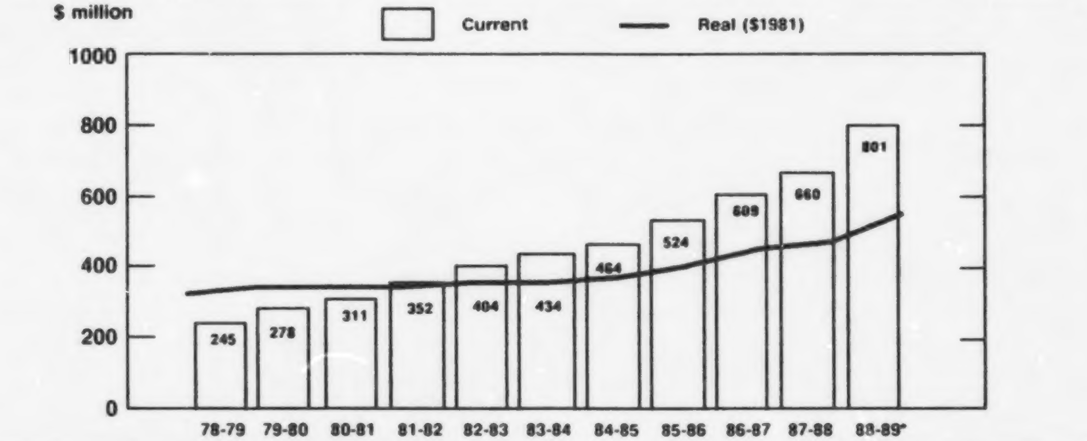
Seniors who are in good health are increasingly being supported in their own homes through community-based social services. Included among the community-based programs for the elderly are Home Support Services, Elderly Persons Centres, Homemakers and Nurses Services, and the Integrated Homemakers Program. Between 1984-85 and 1988-89, MCSS expenditures on these four community-based programs increased from $17 million to $92 million, or at an average annual rate of 51 per cent.

Funding for Support Services for the Physically Handicapped, also known as Attendant Care, increased from $7 million to $24 million between 1984-85 and 1988-89, or at an average annual rate of 35 per cent.

The Children's Services Program

Expenditures in the Children's Services Program area increased from $245 million in 1978-79 to $801 million in 1988-89, or at an average annual rate of 13 per cent. While the individual programs in this area are focussed on children, their families are also beneficiaries in most cases.

Expenditures on Children's Services **Chart 6**
1978-79 to 1988-89



Sources: Ontario Ministry of Treasury and Economics.
Statistics Canada.
* Interim

Child Care is the largest component of the Children's Services Program, with operating expenditures of $255 million and capital expenditures of $12 million in 1988-89. Since 1984-85, operating expenditures on child care have increased at an average annual rate of 31 per cent.

In June 1987, the Government announced its child care strategy, entitled *New Directions for Child Care*. As part of this strategy, operating expenditures in 1988-89 increased by 47 per cent over the level of the previous year.

Child Welfare Services is the second largest expenditure item in the Children's Services Program area. Total spending on child welfare services increased from $165 million in 1984-85 to $237 million in 1988-89, or at an average annual rate of 9 per cent.

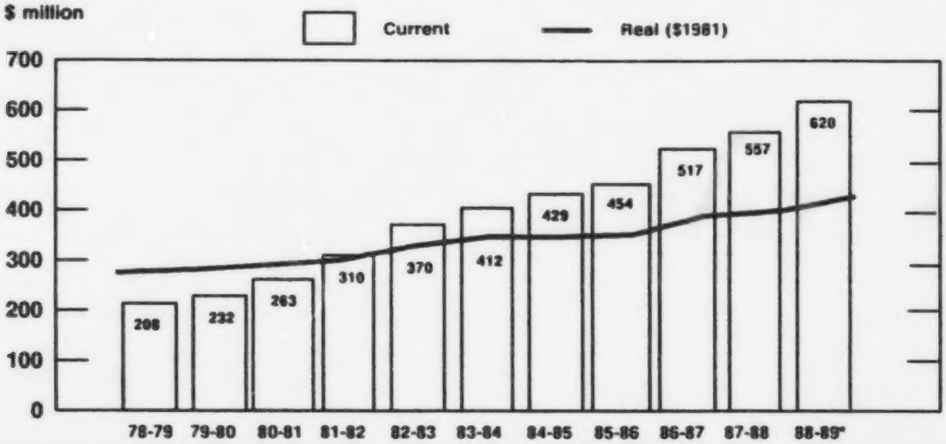
Child welfare services are provided by the province's 54 Children's Aid Societies. These local agencies serve children suffering from physical, sexual and emotional abuse or neglect; provide temporary or permanent guardianship of children separated from their parents for various reasons; and make arrangements for foster care and adoption.

In recent years, the Government has begun to take into account the special needs of native children. In 1987, MCSS designated three Native Children's Aid Societies: TiKinagen (north-west Ontario), PayuKotayno (James Bay and Hudson Bay) and Weech-it-te-win (Rainy Lake Region). MCSS also funds the provision of child welfare services on reserves in order to reduce the percentage of native children removed from their homes and families.

The Developmental Services Program

Between 1978-79 and 1988-89, expenditures in the Developmental Services Program area increased from $208 million to $620 million, or at an average annual rate of 12 per cent.

Expenditures on Developmental Services **Chart 7**
1978-79 to 1988-89



Sources: Ontario Ministry of Treasury and Economics.
Statistics Canada.

* Interim

Developmental Services incorporate programs which provide highly specialized treatment, training and support for the developmentally handicapped and their families. These services are provided in Ministry-operated and agency-operated facilities, in group homes and in independent settings. There are 4,800 developmentally handicapped people living in 11 Ministry-operated and 10 agency-operated facilities, and an estimated 30,000 developmentally handicapped people being served in the community.

In 1987, the Government approved a 25-year plan for the development of a community-based service delivery system and for the phasing out of institutional care facilities. Within the context of this long-range de-institutionalization plan, the Government also approved a seven-year plan which will begin enhancing opportunities for the developmentally handicapped to participate more fully in society. Over this seven-year period, MCSS will develop community living alternatives for a minimum of 1,000 people now living in institutions for the developmentally handicapped. At the same time, measures are being taken to ensure high standards of care for those who remain in an institutional care setting. This will involve additional staffing, as well as capital renovations.

Conclusion

This profile has described the growth in spending that has occurred in the major MCSS program areas over the past ten years. There will be strong pressures for continued growth in the years ahead. For example, as the baby boom generation ages, there will be increased demand for both institutional care and community-based services for the elderly. The challenge facing the Ministry of Community and Social Services will be to meet the changing and expanding needs of Ontarians in an efficient and cost-effective manner.

Summary of Ministry of Community and Social Services Programs **Appendix**

	Services Provided	Clients	Service Indicators
Income Maintenance			
Family Benefits Allowance (FBA)	– Long-term income support – Shelter subsidy	– Disabled – Single parents – Other	– 181,000 recipients – 347,000 beneficiaries
General Welfare Assistance (GWA)	– Short-term and emergency income support – Shelter subsidy	– Employable singles and families – Unemployable singles and families	– 111,000 recipients – 193,000 beneficiaries
Ontario Drug Benefits	– Free prescription drugs	– FBA and GWA recipients	– 6 million claims
Adults' Services			
Homes for the Aged	– Accommodation – Nursing/personal care	– Elderly	– 28,800 beds
Elderly Persons Centres	– Social and recreational activities provided through non-profit drop-in centres	– Elderly	– 212 centres
Home Support Services	– Meals-on-Wheels – Friendly visiting – Transportation – Day programming – Support services for victims of Alzheimer's – Some home repair	– Elderly	– 1,370 projects across Ontario
Municipal Homemakers and Nurses Services	– Homemaking – Personal care	– Elderly – Handicapped – Convalescent	– 170 municipalities
Integrated Homemakers Program	– Homemaking – Personal care	– Frail elderly – Disabled	– 18 sites
Attendant Care	– Non-medical personal support (physical care, grooming)	– Disabled adults 18 years and over	– 60 agencies in over 70 locations – 965 spaces in ministry-sponsored housing units – 850 persons through outreach component
Halfway Houses	– Accommodation – Rehabilitative services	– Alcoholics – Ex-offenders – Socially disadvantaged persons	– 42 houses – 667 beds
Counselling and Supportive Services, including Employment Opportunities Program and the Employability Agreement	– General counselling	– Social assistance recipients and their dependents – Battered women and their children – Perpetrators of family violence	
Sheltered Workshops	– Sheltered employment – Assessment – Vocational training – Placement	– Disabled	– 40 workshops – 2,671 trainees

Summary of Ministry of Community and Social Services Programs **Appendix**

	Services Provided	Clients	Service Indicators
Training Expenses	- Purchase of training services (in community colleges, private trade schools) - Purchase of psychological, educational and work assessment services - Transportation - Medical restoration (wheelchairs, artificial limbs)	- Disabled	- 13,500 persons served including 2,900 provided with training
Children's Services			
Child Welfare	- Temporary or permanent guardianship of children - Counselling for children and families - Protection of children from physical/emotional abuse - Foster care - Adoption	- Children and their families	- 54 Children's Aid Societies with 9,661 children in their care - 5,076 foster homes - 661 children on adoption probation - 25,082 protection and prevention cases
Child and Family Intervention Services (formerly known as Children's Mental Health Centres, Children's and Youth Institutions)	- Assessment and counselling services to deal with social, emotional and behavioural problems	- Children and their families	- 100 Mental Health Centres with 29,200 active cases - 51 Children's and Youth Institutions with 721 beds and 2,700 children served
Child Treatment Services	- Alleviation of mental or psychiatric disorders	- Children and their families	
Child Care	- Child care subsidies to families in need - Licensing child care programs to ensure the health and safety of children - Direct operating grants to centres	- Children and their families	- 108,700 spaces
Young Offenders Program	- Detention homes - Open and secure custody facilities - Probation services - Prevention services - Assessment services - Alternative measures	- Youth 12 to 15 years of age	- 1,392 served through open custody - 2,118 served through open detention - 9 secure custody programs
Developmental Services			
Residential Services:			
Schedule I Facilities (Ministry-operated)	- Residential services - Treatment - Training programs	- Developmentally handicapped	- 3,769 adults - 150 children - 11 facilities

Summary of Ministry of Community and Social Services Programs **Appendix**

	Services Provided	Clients	Service Indicators
Schedule II Facilities and Community Resource Centres (agency-operated)	- Residential services - Treatment - Training programs	- Developmentally handicapped	- 638 adults - 243 children - 10 facilities
Homes for Retarded Persons (and other community accommodation)	- Residential services	- Developmentally handicapped	- 3,780 beds/adult - 770 beds/children
Sheltered Workshops	- Assessment - Training - Sheltered employment	- Developmentally handicapped adults	- 7,300 spaces
Life Skills	- Training for grooming, banking, budgeting, transit, and vocabulary	- Developmentally handicapped adults	- 3,070 spaces
Support Services:			
Supported Independent Living	- Supervision and assistance	- Developmentally handicapped adults living in the community	- 1,525 adults
Special Services at Home	- Specialized equipment and programming - Feeding, toiletting - Basic living skills	- Developmentally handicapped children at home	- 9,400 clients for Special Services at Home and Tri-Ministry
Tri-Ministry	- Assessments and individual programming	- Developmentally handicapped children living in residential homes for special care and in nursing homes	- 9,400 clients for Special Services at Home and Tri-Ministry
Infant Stimulation	- Training parents and working with infants	- Developmentally delayed infants (age 0-2)	
Respite Care	- Temporary relief from caring for a developmentally handicapped child	- Parents of developmentally handicapped children	

Budget Paper E: Municipal Government Finance

Introduction

Together, the Province and municipal governments plan and provide infrastructure for housing, industry, transportation networks, environmental protection and other important community services. The Province helps school boards address their capital needs. In recent years, governments have faced difficult choices in generating and allocating resources to finance these needs.

While many communities across Ontario have benefitted from the sustained economic expansion during the last several years, much of Ontario's rapid growth has been concentrated in the Greater Toronto Area (GTA). The GTA includes the municipalities in the regions of Halton, Durham, Peel, York and Metropolitan Toronto. Other areas have been more stable. While economic expansion has increased both employment and business investment in Ontario, it has also brought challenges. The Province and local governments must accommodate growth while maintaining and improving existing services.

Part One: Trends in Municipal Finance

Overview

This section introduces the municipal sector and provides highlights of Ontario's recent growth, as indicated by the increase in households and population. It includes discussion of municipal budgeting, revenues, the property tax system and expenditures. The final sections discuss long-term debt issued by municipalities, and the role and magnitude of municipal reserves and reserve funds, including lot levies. Part One concludes with a brief summary of municipal financial performance.

The Municipal Sector

In 1987, municipal governments spent a total of $11.5 billion[1] representing 5.1 per cent of the province's Gross Domestic Product or GDP. By comparison, in 1987-88[2] the Province's expenditures, including transfers to municipalities, totalled $34.9 billion or 15.6 per cent of GDP[3].

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[1] The municipal data used in this paper were extracted from Financial Information Returns for the years 1982 to 1987, as filed by municipalities with the Ministry of Municipal Affairs.

[2] Municipalities report financial information on a calendar year basis, while the Province's fiscal year begins April 1.

[3] To avoid double counting, these two shares of provincial GDP should not be combined.

In 1988, municipalities varied in size from Metropolitan Toronto with approximately 2.1 million people, to Cockburn Island Township, which had only three permanent residents. Approximately 70 per cent of Ontario's residents live in the province's 50 largest lower-tier municipalities. In contrast, about 600 municipalities have fewer than 5,000 residents.

Of the 839 municipalities in the province, 800 are referred to as "lower-tier" municipalities. These are cities, towns, separated towns, villages, townships and improvement districts. The 39 "upper-tier" municipalities include regions, counties, the District Municipality of Muskoka and the Municipality of Metropolitan Toronto.

In Canada, municipalities derive their powers, responsibilities and revenue sources from Provincial statute. Municipalities are corporate bodies and may pass by-laws on matters for which they have express legal responsibility. The taxing authority of municipalities in Ontario is limited to the property tax base, which is shared with school boards.

The Ontario Municipal Board (OMB) acts as an adjudicator and has the authority to hear complaints and applications on matters such as long-term borrowing, municipal boundary issues and certain by-laws. The OMB is an autonomous, quasi-judicial agency of the Ministry of the Attorney General.

Municipalities share responsibility for delivering and funding many services often associated with the Provincial and federal governments, such as health care, general welfare assistance and other social programs. They also provide many local services such as fire protection and garbage collection.

Regions and counties share responsibilities with the local or lower-tier municipalities within their jurisdictions in different ways. Within regions, the upper-tier municipality is generally responsible for providing arterial roads, transit, policing, sewer and water systems, planning and development on a region-wide basis, and health and social services. Lower-tier municipalities generally look after local roads, fire protection, garbage collection, recreation and local planning needs. Approximately two-thirds of the province's population live in areas with a regional form of government.

Within the counties, lower-tier municipalities deliver the majority of municipal services. Upper-tier governments are primarily responsible for county roads, homes for the aged and welfare administration.

In the North[4], virtually all municipalities are lower-tier. Sudbury is the only regional government and there are no county governments. Many sparsely-populated areas do not have any formal incorporated municipal government. Local Services Boards and Roads Boards provide selected services to people living in communities without municipal organization.

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[4] The North encompasses all municipalities within Districts and the Region of Sudbury. Northern Districts are not upper-tier governments, but indicate geographic boundaries only.

Municipal Growth

Between 1982 and 1988, Ontario's population grew from 8.4 million to 9.1 million, an increase of 7.7 per cent. Population growth was higher, at 12.7 per cent, in the GTA, which is made up of the municipalities in the regions of Halton, Peel, York, Durham and Metropolitan Toronto. Indeed, the GTA accounted for some 66 per cent of the growth over the period, although it accounted for only 39.7 per cent of the population in 1982. Similarly, almost half of the increase in households occurred in the GTA.

This growth has placed massive pressure on infrastructure in the GTA. These pressures will mount over the 10 year period from 1988 to 1998, when the GTA is projected to absorb approximately 60 per cent of Ontario's growth. Population growth of 13.5 per cent in Ontario and 19.2 per cent in the GTA will lead, over the next decade, to a sharp increase in necessary services such as roads, transit and water and sewage facilities.

Municipal Growth, 1982 to 1988 **Table 1**
(Thousands)

	1982	1988	Growth (%)
Households			
GTA	1,248	1,411	13.1
All Municipalities	3,288	3,625	10.2
Population			
GTA	3,354	3,781	12.7
All Municipalities	8,449	9,096	7.7

Source: Municipal Analysis and Retrieval System, Ministry of Municipal Affairs.
The 1988 population figures are based on the enumeration reports prepared for the November municipal elections. Population figures may differ from Census data.

Municipal Budgeting

Municipalities report their financial affairs through three separate funds: the revenue fund, which represents the operating account; the capital fund; and reserves and reserve funds, which are set aside to be spent at a later date.

Under the provisions of the *Municipal Act*, a municipality may not budget for a surplus or deficit in its revenue fund or operating account. The operating position of the municipal sector is not comparable with surpluses or deficits reported by the Provincial and federal governments which reflect both operating and capital components.

The Province restricts the ability of municipalities to take on long-term debt. Approval by the OMB is required before any debt can be incurred with a repayment period exceeding the term of the current municipal council. The OMB provides guidelines for measuring a municipality's ability to take on increased debt. The current guidelines state that a municipality should not commit more than 20 per cent of its annual operating expenditures to debt servicing (including principal repayment as well as interest). For high-growth municipalities, more flexibility may be permitted by the OMB.

Municipal Revenues

Between 1982 and 1987, municipal consolidated revenues[5] grew from $7.9 billion to $11.6 billion, for average annual growth of 8.1 per cent. (See Table 2.)

Major Components of Revenue

Municipal revenues are derived from taxation, Provincial grants, user fees, "other" revenues and long-term borrowing. With the exception of long-term borrowing, all revenue sources grew at rates well above inflation, as measured by the Consumer Price Index (CPI) for Ontario, which increased at an average annual rate of 4.9 per cent between 1982 and 1987. The two largest sources of revenue in 1987 were taxation and Provincial transfers.

Consolidated Municipal Revenues **Table 2**

	1982		1987		Average Annual Growth (%)
	$ Million	Share of Total (%)	$ Million	Share of Total (%)	
Taxation	3,084	39.1	4,680	40.3	8.7
Transfers from the Province*	2,523	32.0	3,564	30.7	7.2
User Fees	876	11.1	1,422	12.2	10.2
Other Revenues	1,006	12.7	1,586	13.6	9.5
Long-term Borrowing	400	5.1	371	3.2	(1.5)
Consolidated Net Revenue	7,889	100.0	11,623	100.0	8.1

Source: Financial Information Returns filed with the Ministry of Municipal Affairs, 1982 to 1987 (preliminary).

* Table C7 of Budget Paper C reports a broader measure of transfers to local governments and agencies.

At $4.7 billion in 1987, taxation[6] was the single largest source of municipal revenue, representing 40.3 per cent of consolidated revenues for municipalities as a whole. In GTA municipalities, taxation comprised $2.3 billion or 42.4 per cent of consolidated revenues.

In 1987, 44.1 per cent of municipal taxation was levied against commercial, industrial and business properties. The balance was collected from residential and farm properties and from vacant land. Since 1982, the composition of municipal tax revenues by property tax class has been stable. Municipalities in the GTA derived a greater proportion of their tax revenues, 48.3 per cent, from business and commercial sources.

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[5] Municipal expenditures and revenues are reported on a consolidated basis unless otherwise noted. Consolidated revenues are the sum of revenue fund revenues and capital fund revenues minus transfers from the revenue fund to the capital fund.

[6] Taxation includes residential, farm, commercial and industrial property taxes as well as business taxes and municipal charges (e.g., direct water billings and sewage surcharges).

The Province's annual assistance to municipalities increased by more than $1.0 billion between 1982 and 1987. Table 3 shows the Province's support[7] for municipalities in the form of conditional grants, unconditional grants and payments-in-lieu of taxes (PILs).[8]

Ontario Grants to Municipalities* **Table 3**

	1982		1987		Average Annual Growth (%)
	$ Million	Share of Total (%)	$ Million	Share of Total (%)	
Conditional					
Operating	1,285	50.9	1,921	53.9	8.4
Capital	470	18.6	664	18.6	7.1
Subtotal	1,755	69.5	2,585	72.5	8.0
Unconditional	660	26.2	822	23.1	4.5
PILs	108	4.3	157	4.4	7.9
Total	2,523	100.0	3,564	100.0	7.2

Source: Financial Information Returns filed with the Ministry of Municipal Affairs, 1982 to 1987 (preliminary).

* Table C7 of Budget Paper C reports a broader measure of transfers to local governments and agencies.

Conditional grants make up the bulk of Provincial support. The Province provides grants to municipalities for specific programs that meet criteria established by the Province. Generally, municipalities must also contribute financially to the program. The Ontario Unconditional Grants Program provides funds that may be spent in any manner decided by the municipal council.

Grants to the GTA increased at an average annual rate of 8.1 per cent, more quickly than the province-wide average between 1982 and 1987. In 1987, Provincial grants to GTA municipalities totalled $1.4 billion.

[7] This amount excludes certain Provincial transfers to other local agencies, such as housing authorities.

[8] PILs are payments made to municipalities in lieu of property taxes for facilities owned and operated by the Province and for such institutions as universities and hospitals. They exclude similar payments made by the federal government, and federal and Provincial Crown Corporations. These are included in other revenues.

Municipalities increased their use of other available revenue sources. For example, user fees were the fastest growing component of municipal revenue between 1982 and 1987. (See Table 2.)[9]

Long-term borrowing is considered a source of municipal revenue because it provides municipalities with the "cash in hand" to carry out capital projects. It smooths the fiscal impact of acquiring capital assets, such as roads and recreational facilities, over a longer period.

Municipalities chose to reduce their reliance on long-term borrowing between 1982 and 1987. Instead, they relied on other revenue sources, including lot levies and the property tax base, to fund their capital expenditures.

Own-Source Revenue

Municipal own-source revenues include taxation, user fees, other revenues and long-term borrowing. They exclude transfers from the Province and the Government of Canada. Provincial own-source revenues are defined as budgetary revenues less transfers from the Government of Canada.

Table 4 shows that between 1982 and 1987 municipal own-source revenues increased more slowly than Provincial own-source revenues. This reflected the fact that the Province experienced greater spending pressures, particularly in the area of health, than did municipalities.

Own-Source Revenues **Table 4**

	1982 $ Million	1987 $ Million	Average Annual Growth (%)
Provincial	15,978	27,378	11.4
Municipal	5,231	7,863	8.5

Source: Financial Information Returns filed with the Ministry of Municipal Affairs, 1982 to 1987 (preliminary). Ontario Public Accounts, 1982-83 and 1987-88.

Property Assessment, Mill Rates and Taxes per Household

The municipal property tax system has two key elements: property assessment and mill rates. The amount of property tax raised on a specific property is determined by the application of a mill rate to the taxable assessed value of the property.

Property assessment services are provided by the Province. Each property is examined by the Ministry of Revenue and assigned a value based on the value of similar properties in the vicinity. The assessment value is not usually the current or appraised market value of the property. It is generally some fraction of the market value at a point in time. Both the fraction and the time period may vary between and within municipalities.

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[9] User fees include public transit fares, *per diem* rates in homes for the aged, and recreational program and rental fees. Other revenues include licences, permits, interest and penalties on taxes and investment income.

Mill rates are established by municipalities and are the tax rates which determine the amount of tax collected. Mill rates are set to provide sufficient revenues for the municipality's requirements after all other revenue sources have been taken into account.

Within each municipality, there is one mill rate for residential, farm and vacant properties and another for commercial and industrial properties. Under Provincial legislation, the residential mill rate must be 85 per cent of the commercial rate. In addition, special mill rates may be levied for particular services (e.g., water or sewage) or against certain areas of a municipality which benefit from higher levels of overall service (e.g., urban service rates).

Municipalities also collect business taxes. These taxes are based on the property tax system, but are taxes on the people carrying on a business rather than on the property. The tax is calculated by multiplying the assessed value of the real estate by a percentage for each type of business as specified in the *Assessment Act*. The commercial mill rate is then applied.

Municipal mill rates increased moderately between 1982 and 1987. The average annual increase was 5.8 per cent, higher than the average provincial rate of inflation of 4.9 per cent a year. In the GTA, mill rates grew more slowly, at 5.7 per cent per year. However, total residential taxes per GTA household for both municipal and school purposes were above the province-wide average in 1987. (See Table 5.)

Between 1982 and 1987, the total local property tax base in Ontario increased at an average annual rate of 2.6 per cent. GTA municipalities experienced faster growth of 3.1 per cent, primarily reflecting strong growth in the residential property tax base.

In 1987, commercial and industrial properties accounted for 39.4 per cent of the total equalized (i.e., adjusted to simulate 1987 market value) assessment base in the GTA. The average for all municipalities in Ontario was 34.8 per cent. The remainder was comprised of residential and farm assessment.

In 1987, the GTA had a substantial share of the province's lucrative commercial, industrial and business assessment base at 58.2 per cent. In contrast, the GTA municipalities encompassed 38.7 per cent of all the households in Ontario and 47.8 per cent of the residential assessment base.

Residential Property Taxes per Household, 1987 **Table 5**
(Dollars)

	All Municipalities	GTA
Municipal*	568	653
Charges**	133	152
Subtotal Municipal	701	805
School	644	806
Total	1,345	1,611

Source: Financial Information Returns filed with the Ministry of Municipal Affairs, 1982 to 1987 (preliminary).

- * Includes upper-tier and lower-tier taxes.
- ** Charges include direct water billings and sewage surcharges.

Municipal taxes accounted for 52.1 per cent of the average residential property tax bill in 1987. Since 1982, municipal taxes have made up a decreasing proportion of total residential taxes. In that year, municipal property taxes represented 53.8 per cent of the local tax bill.

Residential property taxes, as measured by the ratio of taxes to average household income, have risen over the last few years. Property taxes accounted for 2.8 per cent of income in 1982, compared to 2.9 per cent in 1987 on a province-wide basis. In 1987, total residential taxes represented 3.2 per cent of household income in the GTA, up from 2.9 per cent in 1982.

Municipal Expenditures

Between 1982 and 1987, municipal consolidated expenditures grew at an average annual rate of 8.3 per cent, from $7.7 billion to $11.5 billion. (See Table 6.) By comparison, Provincial spending grew 9.2 per cent per year from 1982-83 to 1987-88. As noted above, Ontario's annual rate of inflation averaged 4.9 per cent over the period.

Total Municipal Expenditures by Fund **Table 6**

	1982 $ Million	1987 $ Million	Average Annual Growth (%)
Revenue Fund	6,617	9,798	8.2
Capital Fund	1,385	2,211	9.8
Transfers from Revenue Fund to Capital Fund	(308)	(527)	11.3
Consolidated Expenditures*	7,694	11,482	8.3

Source: Financial Information Returns filed with the Ministry of Municipal Affairs, 1982 to 1987 (preliminary).

- * Consolidated expenditures are the sum of revenue fund expenditures and capital fund expenditures minus transfers to the capital fund.

Overall spending grew more quickly in the GTA, with an average annual increase of 8.9 per cent. This was particularly true of capital spending, which grew at an average rate of 10.7 per cent per year.

In 1977, 41.7 per cent of all capital expenditures were financed by long-term borrowing. However, as municipalities financed capital expenditures increasingly from current revenues and reserve funds, this ratio declined dramatically to 28.9 per cent in 1982 and to 16.8 per cent in 1987. With the decline in long-term borrowing, more capital projects are being financed from reserves and current revenues.

Consolidated Expenditures by Function

Between 1982 and 1987, municipal spending in all service areas increased. The most rapid growth occurred in health and social services, followed by culture and recreation. (See Table 7.) Municipal spending shifted from transportation and environment to health and social services between 1982 and 1987.

Total Municipal Expenditures by Function **Table 7**

	1982		1987		Average Annual Growth (%)
	$ Million	Share of Total (%)	$ Million	Share of Total (%)	
Transportation	2,036	27.5	2,927	26.8	7.5
Health and Social Services	1,233	16.6	2,043	18.7	10.6
Protection	1,219	16.5	1,740	16.0	7.4
Environment	1,212	16.4	1,705	15.6	7.1
Culture and Recreation	844	11.3	1,252	11.5	8.2
General Government	619	8.4	889	8.2	7.5
Planning and Development	246	3.3	350	3.2	7.3
Consolidated Expenditures*	7,409	100.0	10,906	100.0	8.0

Source: Financial Information Returns filed with the Ministry of Municipal Affairs, 1982 to 1987 (preliminary).

* To present consolidated expenditure by function, transfers to reserves and reserve funds have been netted out. As a result, this total differs from the one in Table 6.

In the GTA, as well as in the municipal sector as a whole, transportation spending comprised the largest share of consolidated expenditures in 1982 and in 1987. However, health and social services spending experienced the fastest growth over the period.

Capital spending was largely concentrated on transportation and environment, which together accounted for 67.9 per cent of total capital expenditures by all municipalities in the province in 1987. Between 1982 and 1987, overall capital spending grew at an average annual rate of 9.8 per cent. Although accounting for a small share of capital expenditures, growth was more rapid in health and social services (22.9 per cent), general government (17.1 per cent) and protection (13.2 per cent).

Table 8 shows the cost of municipal services, by function, on a per household basis. Expenditures per household are about 20 per cent higher in the GTA than the province-wide average, reflecting higher costs and a broader range of services. For example, GTA residents benefit from extensive mass transit systems and more formal child care services.

Total Municipal Expenditures by Function per Household, 1987 **Table 8**
(Dollars)

	All Municipalities	GTA
Transportation	825	1,010
Health and Social Services	576	644
Protection	490	662
Environment	481	569
Culture and Recreation	353	459
General Government	251	279
Planning and Development	99	68
Total	3,075	3,691

Source: Financial Information Returns filed with the Ministry of Municipal Affairs, 1982 to 1987 (preliminary).

Operating Expenditures by Object

Municipal operating or revenue fund expenditures by object of expenditure are shown in Table 9. Wages, salaries and benefits account for almost half of total municipal spending. As a result, these components strongly influence spending growth. Transfers to own funds, or internal transfers, showed the fastest expenditure growth between 1982 and 1987. These transfers represent money moved from the revenue fund to the capital fund (for capital expenditures) and to reserves and reserve funds (where the money is set aside for later needs). This high growth rate reflected the dramatic switch municipalities made in financing capital and undertaking more advanced planning for future capital needs.

Operating* Expenditures by Object **Table 9**

	1982		1987		
	$ Million	Share of Total (%)	$ Million	Share of Total (%)	Average Annual Growth (%)
Salaries and Benefits	3,231	48.9	4,613	47.0	7.4
Materials and Services	1,715	25.9	2,525	25.8	8.0
Transfers to Own Funds	601	9.1	1,105	11.3	12.9
External Transfers**	564	8.5	932	9.5	10.6
Debt Charges	505	7.6	623	6.4	4.3
Total	6,616	100.0	9,798	100.0	8.2

Source: Financial Information Returns filed with the Ministry of Municipal Affairs, 1982 to 1987 (preliminary).

* Represents Revenue Fund expenditures.

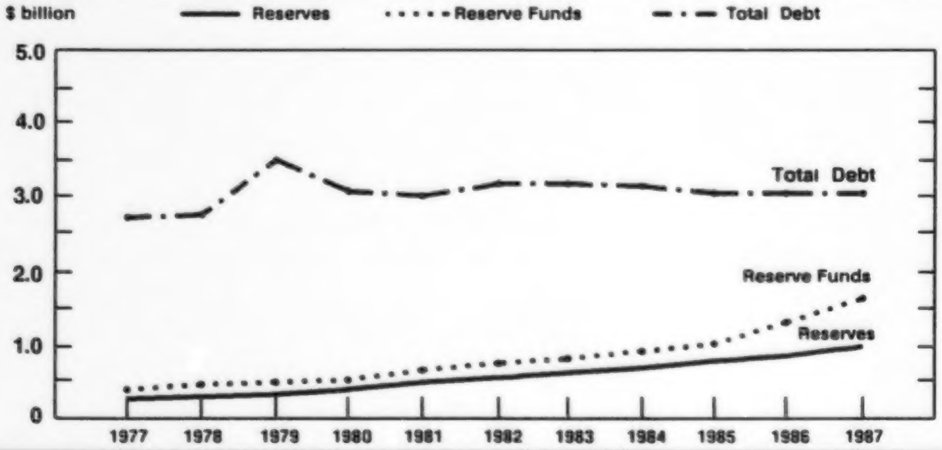
** External transfers represent payments made by municipalities to other unconsolidated local boards and agencies (e.g., public utilities commissions, local hospitals and housing authorities) and to individuals. General welfare assistance payments to individuals are the largest component of external transfers.

Debt charges (repayment of principal and interest on long-term borrowing) form the smallest category of municipal operating expenses, 6.4 per cent of expenditures, and experienced the slowest growth between 1982 and 1987. Indeed, the proportion of municipal operating expenditures accounted for by debt charges steadily declined since 1977, when nearly 10 per cent went to debt repayment. GTA municipalities spent only 5.8 per cent of their revenue fund expenditures to service debt. This was significantly less than the share reported by the Provincial Government (10.8 per cent) and the federal government (23.1 per cent) in fiscal year 1987-88.[10] Provincial and federal debt servicing statistics, moreover, refer only to interest payments and exclude any repayment of principal. If municipal debt service charges were recast to exclude principal, they would be lower still.

Long-Term Debt Outstanding

Municipalities' declining reliance on debt resulted in a reduction of total outstanding debt, as shown in Chart 1. In 1987, municipalities owed $3.0 billion in long-term debt, down from $3.2 billion in 1982. This decline occurred in the face of strong pressure for spending on growth-related capital needs. Almost 65 per cent of all debt was for environment and transportation projects.

Total Debt, Reserve Funds and Reserves **Chart 1**
1977 to 1987



Source: Financial Information Returns filed with the Ministry of Municipal Affairs, 1977 to 1987 (preliminary).

In 1987, long-term debt owed by GTA municipalities totalled $1.2 billion. On a per household basis, the debt burden was $881, or 1.7 per cent of average household income, similar to the province-wide averages of $858 and 1.9 per cent, respectively.

[10] Source: Ontario Public Accounts, 1987-88 and Government of Canada Public Accounts, 1987-88.

Total municipal debt charges represented 6.4 per cent of revenue fund expenditures in 1987, well under the OMB guideline. With lower overall debt burdens and resulting lower debt carrying costs, municipalities have significant scope to assume new debt for capital projects. Table 10 presents a number of indicators of municipal debt capacity. Municipalities could borrow up to $7.9 billion to finance capital projects to meet infrastructure needs while still remaining within the OMB debt guidelines. The GTA municipalities could finance up to $3.8 billion.

Indicators of Municipal Capacity to Assume Debt* **Table 10**

	$ Million
Match Historical Debt Charge Ratio**	2,451
Match Provincial 1987 P.D.I. Share***	3,345
OMB Debt Limit	7,888

Source: Ministry of Municipal Affairs and Ministry of Treasury and Economics.

* This table was calculated using an interest rate of 11.5 per cent per annum and an amortization period of 20 years.

** This level of municipal debt would produce the same ratio of debt charges to operating expenditures that existed in 1979.

*** Provincial interest payments (P.D.I.) as a share of budgetary expenditures. Municipal principal and interest payments as a share of operating expenditures.

Municipal Reserves and Reserve Funds

Reserves and reserve funds are accumulated revenues set aside by municipalities to finance operating and capital expenditures at some future time. Reserves are generally used for such operating purposes as contingencies and sick-pay credit programs. Reserve funds are created by municipal councils for future capital projects and represent an alternative to long-term borrowing.

Monies set aside in reserves and reserve funds grew steadily between 1982 and 1987. (See Chart 1.) In 1982, the balance in reserves and reserve funds totalled $1.3 billion. By 1987, the balance had grown to $2.6 billion. This represented an average increase of 15.2 per cent per year. GTA municipalities reported faster growth in their reserves and reserve funds, at an average annual rate of 16.3 per cent from $638 million to $1.4 billion.

Lot levies are charges or fees placed on parcels of land (for example, residential building lots) before development. The revenues go towards financing municipal infrastructure, related to the new development, such as arterial roads, trunk sewers and watermains, and recreational facilities. Developers generally provide on-site services. Lot levy revenues must be kept in a separate reserve fund.

Lot levies represent a significant and growing source of municipal revenue. These revenues increased five-fold between 1982 and 1987. (See Table 11.) In 1987, municipalities raised $397 million from lot levies. The building boom in Southern Ontario was primarily responsible for this trend and many municipalities increased their levies, or imposed levies for the first time, in response to service needs arising from strong growth. The GTA municipalities raised 73.8 per cent of these funds.

Part Two of this paper describes in detail the *Development Charges Act* which will bring structure and accountability to lot levies.

Lot Levies*, 1987 **Table 11**
($ million)

	Annual Revenues From Lot Levy and Developers' Contributions	Closing Balance From Lot Levy and Developers' Contributions
Greater Toronto Area	293	472
Other Regions	58	116
Counties	44	64
North (including Sudbury)	2	8
Provincial Total	397	660

Source: Financial Information Returns filed with the Ministry of Municipal Affairs, 1982 to 1987 (preliminary).
* Includes contributions for recreational lands.

Municipal Financial Health

The municipal sector as a whole is in a strong financial position, although significant exceptions exist, even within the GTA. Local governments have coped well with Ontarians' increasing needs for services. As this review has shown, over the period 1982-1987:

- municipal capital spending grew at nearly twice the rate of inflation;
- municipal reliance on long-term borrowing declined;
- the total amount of municipal debt outstanding declined sharply;
- the portion of annual expenditures devoted to servicing municipal debt declined;
- total reserves and reserve funds, set aside to finance future expenditures, increased steadily;
- municipal own-source revenues increased more slowly than Provincial own-source revenues; and
- property taxes, municipalities' primary source of revenue, rose slightly as a share of household income.

Local governments have maintained a gradual increase in own-source revenue despite significant spending pressures. For example, municipal capital expenditures increased at an average annual rate of 9.8 per cent between 1982 and 1987. At the same time, municipalities reduced, rather than increased, their use of long-term debt to finance these expenditures. Local governments have been financing capital expenditures from current revenues.

If municipalities adopted a financing strategy that recognized the extended useful life of capital projects, their ability to fund an increased proportion of capital requirements, over the next several years, would be significantly enhanced, particularly in high-growth areas such as the GTA. Municipalities could borrow up to $7.9 billion to finance capital projects, while adhering to the OMB guidelines.

Part Two: The Development Charges Act

Overview

Lot levies have become an important source of municipal revenue in recent years. As growth increased, levies became more widely recognized as a way to ensure that developers who benefit substantially from growth make a contribution to the infrastructure which fosters that growth. However, the systems of introducing, adjusting and appealing municipal levies have been *ad hoc*, and have created considerable uncertainty for municipalities and developers.

On December 12, 1988, the Government released a Green Paper entitled "Financing Growth-Related Capital Needs". This Paper outlined Ontario's increasing need for new capital infrastructure, such as sewer, water and road systems and schools. The Green Paper examined charges on development, such as lot levies, and other options for financing capital infrastructure. It also suggested improving the structure and accountability of existing municipal lot levies and front-end financing arrangements.

An extensive consultation process was undertaken. The Parliamentary Assistants to the Treasurer and to the Ministers of Municipal Affairs, Housing and Education held several meetings with interested parties. In addition, an Interministerial Committee with representatives from the ministries of Municipal Affairs, Treasury and Economics, Education and Housing reviewed over 120 briefs submitted by municipalities, school boards, developers and others. As a result of this consultation process, many useful suggestions have been incorporated into the *Development Charges Act*. The *Act* provides a permissive legislative framework for development charges, front-end financing and other innovative financing arrangements.

A number of briefs expressed concern about the effect of lot levies on the price of housing. It is important to note that levies are a charge on development and will be paid by developers. Developers, municipalities and school boards will all benefit from the new certainty surrounding the financing of growth-related capital projects which could speed up the development of the infrastructure needed to accommodate growth. This, in combination with other Government initiatives, could accelerate the approval of new housing developments, and bring more houses to the market. This is expected to have a moderating effect on housing prices in the long term.

During the consultation process, a number of municipalities noted their practice of charging lower levies on less expensive housing. It was thus felt to be an unnecessary complication for the Province to legislate an explicit discount to encourage developers to build affordable housing. Further, the application of school purpose development charges to commercial and industrial developers will reduce the lot levies on residential developers.

Draft regulations will be released shortly and the Government plans a consultation period during which interested parties will have the opportunity to make further technical suggestions on implementation. The legislation will take effect upon Royal Assent.

Municipal Lot Levies

The *Development Charges Act* will bring structure and accountability to municipal lot levies. The authority of municipalities to establish lot levies will be enshrined in the *Act*. Municipalities choosing to impose lot levies will be required to establish and report on lot levy reserve funds.

Municipalities will be permitted to charge up to 100 per cent of net growth-related capital costs to new development. Many aspects of the *Development Charges Act* closely parallel Green Paper proposals.

- Municipalities may levy for the capital costs of both "hard" services such as roads and "soft" services such as recreational facilities. Municipalities may not levy for their contributions to hospital capital funds.
- Capital recoverable from lot levies is limited to the cost of acquisition and construction of land and buildings, roads, sewers, sewage treatment equipment and similar items that form an integral part of capital so defined. Rolling stock, books, furniture and other equipment are excluded.
- Lot levy by-laws will have a duration of no longer than five years.
- Lot levy by-laws will be subject to a public consultation process similar to that required under the *Planning Act*.
- Lot levies will normally be collected by lower-tier municipalities.
- Lot levy by-laws may be appealed to the OMB within 20 days of adoption. While the levy is under appeal, levies will be paid and development will proceed.

Other aspects of the *Development Charges Act* reflect suggestions received during consultation.

- Municipalities with current lot levies in excess of $3,000 on a single-family home will have one year to conform with the legislation. Other municipalities will have two years to conform.

- Collecting governments will be required to remit lot levy revenues to the levels of government imposing the charges by the 25th day of the month following that in which the revenues are collected.
- Upper-tier municipalities will be able to collect levies for roads, water and sewer systems at the subdivision agreement stage, as appropriate.
- Lot levies may be indexed for inflation. The use of specific indices prescribed in regulation may not be appealed.

Further information may be obtained from the Municipal Finance Branch, Ministry of Municipal Affairs, 13th Floor, 777 Bay Street, Toronto, Ontario, M5A 2E5. Phone (416) 585-6311.

School-Purpose Lot Levies

The Province has extended its three-year, $900 million capital commitment to a fourth year, for a total commitment of $1.2 billion. The $300 million annual commitment is an increase of more than 300 per cent over the $72 million allocation in 1984-85. This capital commitment will generate $1.8 billion in school capital projects.

The *Development Charges Act* will give school boards permissive authority to establish lot levies. In response to a number of recommendations, levies will apply to residential, commercial and industrial development. School boards have the option of recovering up to 100 per cent of the local share of approved growth-related capital costs from such levies. Alternatively, boards will remain free to finance the local share of school construction from the property tax base, through debentures, or in other innovative ways.

- School-purpose lot levies will normally be collected by lower-tier municipalities, and remitted to school boards by the 25th day of the month following that in which the revenues are collected.
- Lot levy revenues will be deposited in a joint account between co-terminous school boards. Funds will be released for growth-related capital projects approved by the Ministry of Education.

The legislation and regulation covering school-purpose lot levies will parallel that governing municipal-purpose lot levies.

Further information may be obtained from the School Business and Finance Branch, Ministry of Education, 21st Floor, Mowat Block, 900 Bay Street, Toronto, Ontario, M7A 1L2. Phone (416) 965-6401.

School Boards' Access to Canada Pension Plan Funds

School boards will have the option of accessing up to $200 million of lower cost Canada Pension Plan (CPP) funds when available, to finance the local share of approved school capital. The Ontario Municipal Improvement Corporation (OMIC) will flow available CPP funds to school boards under the terms and conditions at which OMIC borrows. School boards will retain the option of borrowing from conventional sources. Further information can be obtained from regional offices of the Ministry of Education.

Payments-In-Kind as an Alternative to Lot Levies

Payments-in-kind are encouraged as an alternative to lot levies both for municipalities and school boards.

Front-End Financing Arrangements for Municipalities and Developers

The *Development Charges Act* sets out the requirements for municipalities to reimburse developers on a "best efforts" basis when front-end financing arrangements are undertaken.

Summary

The *Development Charges Act* provides new options for addressing Ontario's capital infrastructure needs.

These initiatives will provide:

- structure and accountability to the municipal lot levy process;
- additional financing options for much-needed school construction;
- the certainty, structure and flexibility in front-end financing arrangements needed to build capital infrastructure;
- a framework to enable developers, who benefit from infrastructure development, to contribute to its cost; and
- the infrastructure necessary to speed up the approval of housing developments.

When this is accompanied by measures to increase highway access to more communities, to substantially increase Ministry of Housing expenditures and to speed up the planning and development processes, downward pressure on housing prices is expected to result.

Conclusion

Municipalities are in a generally healthy financial position. Municipalities have developed the alternative sources of revenue available to them, including user fees and development charges. The total amount of outstanding long-term municipal debt declined from $3.2 billion in 1982 to $3.0 billion in 1987. Indeed, municipalities could borrow up to $7.9 billion to finance the construction of capital projects without exceeding OMB guidelines.

The Province provides significant financial assistance to municipalities, in the form of transfer payments which increased from $2.5 billion in 1982 to $3.6 billion in

1987, for an average annual increase of 7.2 per cent, well above the annual rate of inflation.

The Province has recognized municipalities' need to respond to growth-related pressures through the *Development Charges Act*, which will bring structure and accountability to municipal lot levies. The Province has also responded to the growth-related pressures confronting school boards: the three-year $900 million capital grant commitment has been extended to a fourth year for a total of $1.2 billion; and the *Development Charges Act* will give school boards the option of establishing lot levies for growth-related capital needs.

The pressures to finance services and infrastructure will require continued joint efforts between the Province and municipalities.

Recently, an Advisory Committee to the Minister of Municipal Affairs on Provincial-Municipal Financing Matters was established. This Committee, including both municipal and Provincial representatives, will provide expert advice to the Minister in exploring further creative responses to financing pressures.

In some areas, local property assessments frequently are not sufficiently current to ensure that property taxes are as fair as possible and are payable in a timely fashion on new development. At the same time, it is difficult for the Province to provide the resources necessary to enhance the current level of service provided by the Ministry of Revenue. The Committee will be asked to consider the municipal role in setting assessment workload priorities, including the possibility of municipal co-payments for selected assessment services.

Budget Paper F: Public Sector Pensions - An Action Plan for Reform

Introduction

In the May 1986 Budget, the Treasurer announced a review of the financing of indexed pensions for Ontario's teachers and public servants. Since then, three reports have been published which reveal serious deficiencies in the funding of indexation benefits. While extensive discussions with representatives of plan members have not resulted in agreement on new arrangements, the Government has indicated it must address the financial problems of these plans if full indexation for teachers and public servants is to continue.

The legislation will provide plan members and the Government with options for entering into new arrangements on how the plans are managed in the future. As discussed with the representatives of plan members, these options are:

- a full partnership and joint trusteeship;
- a member-run arrangement; or
- Government sponsorship.

Without an agreement on future management of the plan, the Government will remain sole sponsor for now. However, the legislation that will be introduced soon to begin reform of these plans will permit these other two management options to be pursued in the future.

This Budget provides funding for the first steps necessary to resolve the funding deficiencies. The purpose of this paper is to explain the nature of these deficiencies, the options considered and the proposed resolution, as well as to present an outline of the fiscal and financing implications for the Government.

Summary of Financial Reforms

The following measures are being taken to enhance the security of these pension benefits.

- The funds that provide the indexation benefits will be combined with those for the basic benefits, resulting in one teachers' pension fund and one public service pension fund.
- To fully fund benefits in the future, the matching contribution rate, paid by plan members and the Government, will be increased by one per cent of salary each.

- The Government will pay the past deficits of the two consolidated pension funds, estimated at $5.7 billion ($4.0 billion for the teachers' pension plan and $1.7 billion for the public service pension plan).
- These pension funds will be permitted to invest in market securities in the future, and the contribution rate has been set on this basis.

Impact on Plan Members

As Table 1 indicates, a plan member with an annual salary of $40,000 will pay an additional $400 in pension contributions. However, contributions to a Registered Pension Plan are deductible from income subject to taxation. This means that the after-tax cost of the additional contributions could be significantly lower, depending on the marginal tax rate of the plan member. A plan member with a salary of $40,000, therefore, might have an after-tax cost of about $236.

Impact of a 1 Per Cent Contribution Rate Increase on Plan Members **Table 1**
(dollars)

Total Income	Increased Contributions	Approximate After-Tax Cost
18,000	180	132
25,000	250	183
40,000	400	236
45,000	450	265
50,000	500	295
75,000	750	406

Fiscal Impact on Government

The financial reforms require increased Government expenditures in respect of higher contribution rates and of special payments to fund the past deficits.

Special payments will be made over 40 years as a constant percentage of payroll. The percentage of future payroll is expected to be about 3.1 per cent for the teachers' plan and 2.7 per cent for the public service plan. The total contribution rate increase for the Government is, therefore, 4.1 per cent for the teachers' plan and 3.7 per cent for the public service plan. Members' contribution increases relate only to future service and amount to one per cent.

Tables 2 and 3 show the impacts on Government expenditures of these changes to the teachers' pension plan and the public service pension plan, respectively.

Teachers' Pension Plan - Annual Costs Table 2
($ million)

	Pre-Reform Expenditures	Budget Measures	Post-Reform Expenditures
1989-90	573	15*	588
1990-91	592	40	632
1991-92	625	136	761
1992-93	645	160	805
1993-94	676	178	854

* Budget measures are assumed to be effective January 1, 1990.

Public Service Pension Plan - Annual Costs Table 3
($ million)

	Pre-Reform Expenditures	Budget Measures	Post-Reform Expenditures
1989-90	259	13*	272
1990-91	272	55	327
1991-92	285	61	346
1992-93	299	66	365
1993-94	313	74	387

* Budget measures are assumed to be effective January 1, 1990.

Background

Nature of Financial Problems

The financial problems of the teachers' and public service pension plans are a result of decisions made when the indexation benefit was introduced in 1975. To protect the pensions of retired teachers and public servants against the high inflation rates of the 1970s, the Ontario Legislature passed the Superannuation Adjustment Benefits Act (SABA) which established the Teachers' Superannuation Adjustment Fund (TSAF) and the Public Service Superannuation Adjustment Fund (PSSAF). Both were separate from the funds that provide the basic benefits. The SABA permitted other employers to participate, and subsequently, Ryerson Polytechnical Institute established an indexation fund on the same terms.

Starting in 1976, the SABA provided automatic pension increases of 100 per cent of the rise in the Consumer Price Index (CPI), with an annual cap of 8 per cent. In years when the CPI increases by more than 8 per cent, the excess is carried forward and applied when the inflation rate is lower. In essence, this amounts to full inflation protection.

Pension plans are normally designed to be fully funded. This means that contributions plus expected investment earnings should be sufficient to finance pension benefits as they are earned. The funds which pay for the basic (non-indexed) pension benefits of teachers and public servants are structured in this manner. Teachers now contribute 6.9 per cent of their salary to the Teachers' Superannuation Fund (TSF), and public servants, 6.0 per cent, to the Public Service Superannuation Fund (PSSF). The Government matches these contributions and has paid additional amounts for deficits as they have arisen. Since 1966, the Government has made special payments to pay deficits in the teachers' basic plan of about $1.2 billion. The comparable figure for public servants is around $500 million. The value of these payments measured in today's dollars is roughly $3.7 billion for teachers and about $1.4 billion for public servants. The deficits arose for a number of reasons, including higher than expected salary increases, demographic changes, and lower than expected investment returns. Through these payments, the basic plans have remained fully funded.

A different funding method was adopted for the indexation benefits. To pay for these benefits, the Government and plan members were each required to contribute one per cent of salary to the indexation funds. The benefits were funded on a modified pay-as-you-go basis; that is, contributions, taken together with interest earned, were designed to pay for the benefits of current retirees, starting with those who retired in 1976. With the choice of this approach, no funding was provided for benefits that were earned for service prior to 1976. The contribution rate was also insufficient to pay for the then-current contributors' benefits. It was understood at the time that the matching contribution rate would eventually have to rise. The SABA established committees to review required contribution rates once a year, with the provision that rates not be increased for five years. For those who retired prior to 1976, the same indexation benefit was provided, but paid for entirely from the Consolidated Revenue Fund (CRF). These benefits also were not funded.

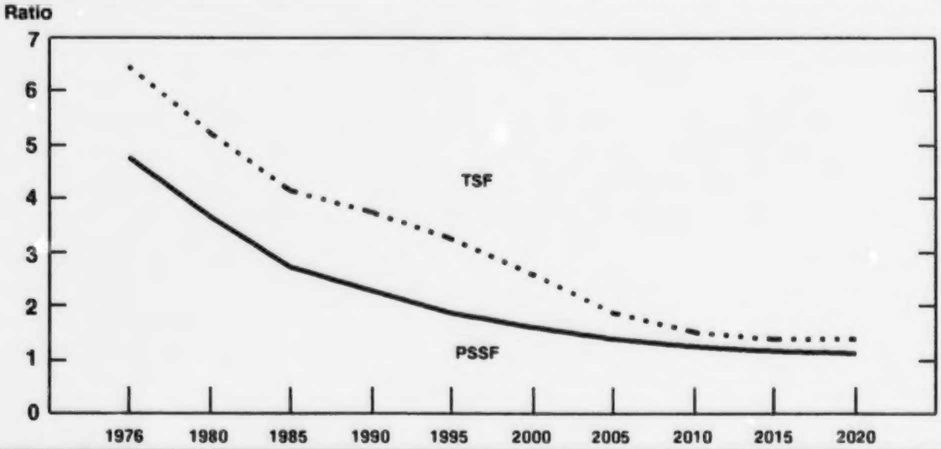
This funding method, not normally permitted for pension plans, was made possible through an exemption under the Pension Benefits Act. The exemption was introduced at a time when high inflation rates were causing deficits to arise in pension funds, while putting pressure on employers to provide inflation protection for pensioners.

The difficulty with continuing the modified pay-as-you-go funding method relates to demographic changes. As long as contributions to the indexation funds from people working, together with investment income, are larger than the indexation benefits being paid to retirees, the funds stay essentially solvent. However, the number of retirees has increased significantly relative to the number of contributors since 1975, and will continue to do so. In brief, demographic changes are rapidly exacerbating the problem created by inadequate funding. Current projections point to the indexation funds becoming exhausted around the turn of the century.

Data on the changing demographic composition of the teachers' and public service pension plans are contained in Chart 1. The Chart shows the ratio of contributors to pensioners in the teachers' and public service pension plans from 1976 to 2020.

In 1976, there were more than six contributors for every pensioner in the TSF. By 1985, that ratio had dropped to 4.2 to one. It is expected that by 2005 there will be fewer than two contributors for every pensioner in the TSF. In 1976, there were almost five contributors for every pensioner in the PSSF. By 1985, the ratio had dropped to 2.7 to one. It is expected that by 1995, there will be fewer than two contributors for every pensioner in the PSSF.

Population Projection: Ratio of Contributors to Pensioners **Chart 1**



Source: Actuarial Services, Human Resources Secretariat

Coward and Rowan Task Force Reports

In light of concerns about the financing situation, Laurence Coward, a leading actuary and pension expert, was commissioned by the Treasurer to provide a report on the financing of indexation benefits for members of the teachers' and public service plans. About the same time, a task force headed by Malcolm Rowan was asked by the Premier to examine the investment policies of public sector pension funds. Both reports were released in February 1988[1].

Coward estimated that the public service indexation fund would be exhausted by 2001, and the teachers' by 2007, unless corrective action is taken. According to Coward, if contributions to the indexation funds are not increased until the funds are exhausted, the matching contribution rate for indexation benefits would have to increase to 2.6 per cent at that time for public servants and 4.4 per cent for teachers, up from the one-per-cent of salary paid specifically for indexation now. Further, by 2019, the required contribution rate for public servants would be 4.3 per cent and 6.9 per cent for teachers. The actuary of the two indexation funds subsequently estimated that if the funding method is not changed, but the matching contribution rate is increased by one percentage point in 1990, the year the funds become exhausted would be postponed, but by less than a decade. (See Charts 2 and 3.)

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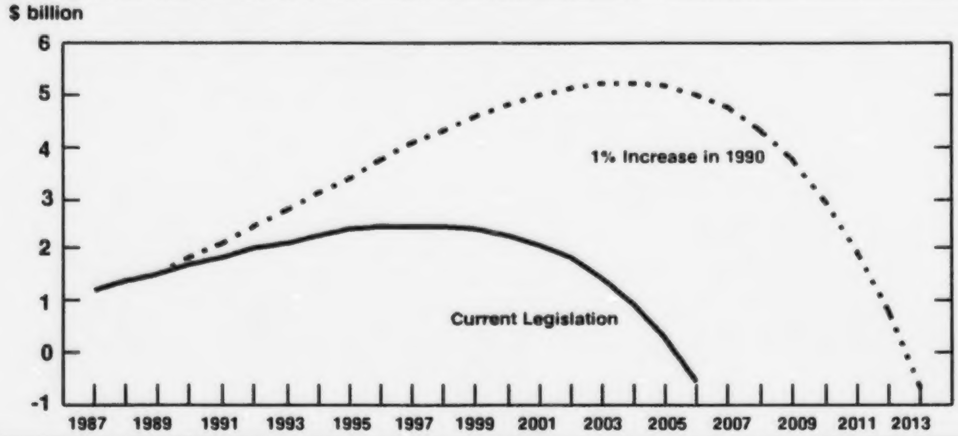
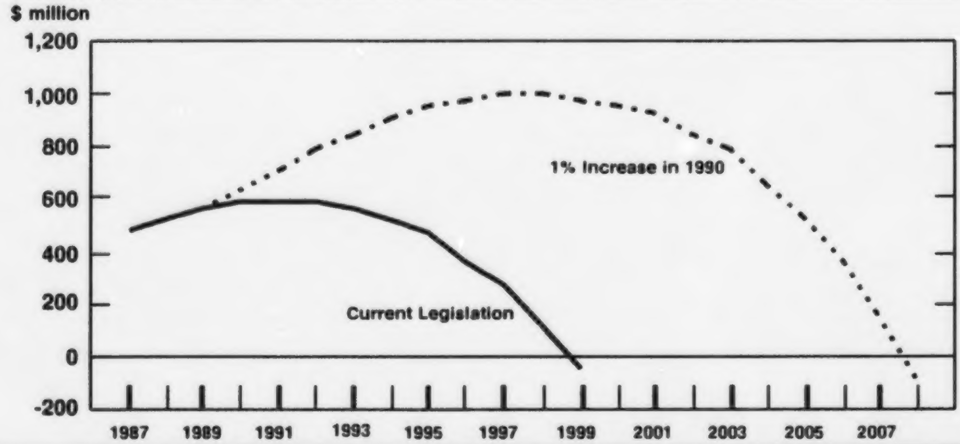
[1] Laurence Coward, *Report to the Treasurer of Ontario on the Financing of Benefits Under the Superannuation Adjustment Benefits Act and Associated Superannuation Plans*, 1987;
Task Force on the Investment of Public Sector Pension Funds, *In Whose Interest?*, 1987.

Projected TSAF Size With Continued Pay-As-You-Go Financing **Chart 2**



Source: Report of the Actuary of the TSAF as at December 31, 1987

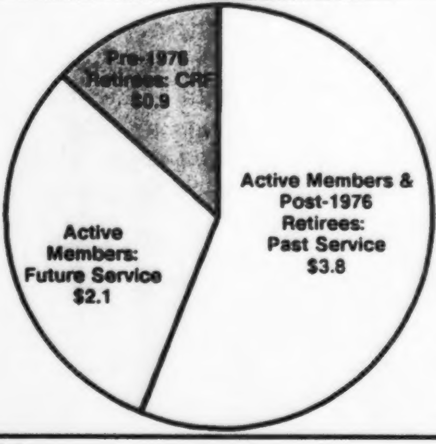
Projected PSSAF Size With Continued Pay-As-You-Go Financing **Chart 3**



Source: Report of the Actuary of the PSSAF as at December 31, 1987

In his report, Coward concluded that the cost of indexing pensions for teachers and public servants is being unfairly passed to future generations of taxpayers and plan members. Based on data to December 31, 1985, he found an actuarial deficit of $5.9 billion for teachers' indexation benefits and $2.6 billion for public service indexation benefits. These estimates assume that contribution rates and the investment policy of the plans are not changed. These figures do not include the liabilities for those who retired prior to 1976 and whose benefits are paid from the CRF. The breakdown of the indexation deficits, including liabilities being paid from the CRF, is shown in Charts 4 and 5.

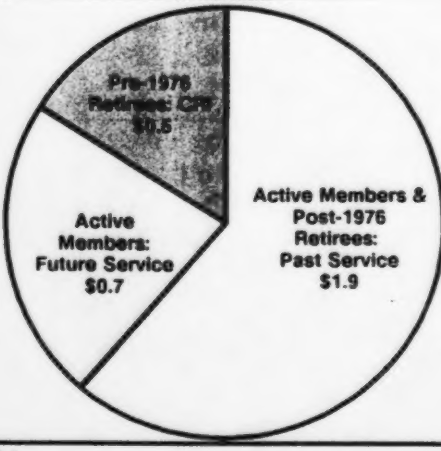
TSAF Unfunded Liabilities ($6.8 billion)* **Chart 4**



Source: Coward report, Appendix E-6.

* As of December 31, 1985, without combining with basic fund, increasing contribution rates and permitting market investments.

PSSAF Unfunded Liabilities ($3.1 billion)* **Chart 5**



Source: Coward report, Appendix E-1.

* As of December 31, 1985, without combining with basic fund, increasing contribution rates and permitting market investments.

These charts illustrate that a substantial portion of the deficit can be avoided if action is taken now. Some $2.8 billion was estimated as necessary to pay for the future benefits of those now working; $2.1 billion for the teachers' and $0.7 billion for the public service plan. An increase in the value today of future contributions of $2.8 billion would be necessary therefore to pay for future benefits as they are earned.

Coward recommended that the basic and indexation benefits be recognized and valued as a single benefit. He noted that a retiree receives only one benefit payment with constant purchasing power. He further recommended that each set of basic and indexation funds be combined and fully funded.

He found a fundamental weakness in maintaining separate basic and indexation funds since the rate of inflation affects them in different directions. Rising inflation simultaneously increases the cost of providing indexation benefits and reduces the cost of providing basic benefits. The latter occurs because rising inflation increases nominal investment earnings and decreases the real value of the final average salary on which pensions are based. If the basic and indexation funds were combined, these changes would offset each other to some degree.

Coward's arguments for full funding included the principle that each generation should pay for its own benefits, enhanced security of benefits and consistency with fiscal responsibility.

Coward suggested that a strong case can be made that plan members should share the responsibility for the past deficit of the combined plans with the Government. However, he concluded that this would be unfair to many current contributors. He recommended, therefore, that the Government should fund the past deficits.

Coward also recommended that contribution rates be raised to pay for future benefits and that full inflation protection be continued, provided both parties are willing to pay for it. He further suggested that the funds be permitted to invest in market securities. He estimated that market securities, over the long term, would generate higher investment returns, thereby leading to lower contribution rate increases and a lower deficit for past service.

Malcolm Rowan's Task Force report, In Whose Interest?, recommended that public sector pension funds follow the same investment practices as those in the private sector. That is, a diversified portfolio of market investments would be preferable to long-term, non-marketable Ontario debentures and deposits. The Task Force shared Coward's views on the restructuring of the teachers' and public service pension funds. Like Coward, the Task Force favoured allowing the pension funds to invest in market securities. In addition to the advantage of lower costs of providing benefits, the Rowan report found that the Government, over time, could borrow more inexpensively in public markets than it now does from these funds.

The Task Force was concerned that taxpayers are clearly responsible for plan deficits, yet entitlement to plan surpluses is not clearly specified in the teachers' and public service plans. The Rowan report concluded that contribution rates, plan assets and plan liabilities should be determined using a low-risk or risk-free rate of return. The Government as plan sponsor should then be entitled to any plan surplus associated with the acceptance of investment risk beyond this minimum level. The Task Force proposed that Government be able to reduce or suspend employer contributions during periods when the funds are in surplus, so that it could recover special payments in respect of deficits that were paid in the past.

The Task Force report recommended that pension fund investment decisions should be made by arm's length boards. The Task Force suggested that plan member representation on the boards responsible for investment management should be based on the risk-reward sharing relationship. That is, if the plan sponsor is responsible for deficits, the sponsor should have majority representation on the board responsible for investment policy.

The Rowan report recommended that discussions take place to clarify the nature of the underlying pension deal. The report also suggested that pension benefits be viewed as a part of the total compensation package, rather than independently of salary and other benefits.

Slater Report

The Coward and Rowan Task Force reports raised major financial and investment policy issues involving 260,000 people and substantial financial outlays from plan members and the Government. David Slater, a former Chairman of the Economic Council of Canada, was appointed to coordinate responses from interested parties. His report was released in August 1988[2].

The Slater report recommended that the existing benefit structure, including full indexation, be maintained, provided new funding arrangements were developed to finance them. He supported the principles of combining the basic and indexation funds, and adopting full funding. He also agreed with Coward's recommendation that the responsibility for the past deficits of the pension plans should be borne by the Government.

Slater further supported the Coward and Rowan recommendations that the plans' assets be invested in market-based portfolios. He suggested a more aggressive investment policy be pursued than Coward had proposed. He concluded, however, that under the best possible circumstances, current contributions, together with estimated investment income, are insufficient to fully fund the current benefit package in the future.

To make the new partnership arrangements and contribution rate increases more attractive to plan members, Slater proposed that a "start-up" fund be established for each of the teachers' and public service plans. These start-up funds would contain 50 per cent of the existing surpluses in the basic funds and one percentage point of future nominal investment earnings for the next five years.

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[2] Dr. David Slater, *A Fresh Start: Report to the Treasurer of Ontario, the Chairman of Management Board and the Minister of Education on Teachers' and Public Servants' Pensions*, 1988.

Slater estimated that the start-up fund would amount to at least $400 million for public servants and $825 million for teachers for a total of about $1.2 billion. He suggested that the monies could be used to phase in contribution rate increases, to pay for pension reform, to establish a cushion against adverse investment experience, or for some combination of these possibilities. However, Slater noted that setting aside the start-up funds would increase the deficits of the combined plans, which he recommended the Government should pay.

The Slater report went beyond financing and investment issues and suggested that plan members and the Government hold discussions on the option of a full partnership and joint trusteeship, which he defined to include:

- joint responsibility for the management of the funds and plan administration; and
- sharing of future plan surpluses and deficits.

Pension Discussions

In general, the Government is willing to accept the Slater approach to changing the governance of the two plans. However, the Government finds some of the cost implications -- for example, the $1.2 billion in start-up funds -- too great in view of other pressing priorities.

Discussions with representatives of plan members were initiated in September, 1988, on the subjects of plan governance, funding and investment policy. The Treasurer noted that the financial issues were of such urgency that he wanted to provide a resolution in this Budget. However, he also stated that the Government was willing to take the opportunity to contemplate reform in the governance arrangements along the lines of Slater's recommendations. The Government also indicated that it would be amenable to a member-run fund. The Treasurer expressed the view that the costs of the Slater proposals, including the start-up funds, were too high for taxpayers to bear -- particularly in light of growing financial pressures in other areas.

Despite agreement in a number of areas, including investment policy, the discussions did not resolve funding and plan governance matters. The Government agreed to fund the past deficits, provided future benefits were fully funded through equal contributions paid by the Government and plan members. The representatives of both teachers and the major group of unionized public servants said they could not accept the proposed rate increase of about one percentage point without substantial benefit improvements. However, given the significant financial commitment required to fund the past deficits and the Government's share of higher contributions, the Government felt it could not agree to expenditures for benefit enhancements at this time.

Some representatives of plan members suggested accepting more optimistic assumptions about future investment returns, which would have reduced the required matching contribution rate increase and the size of the past deficits to be paid. However, more optimistic assumptions would have required a more risky investment policy and entailed a higher probability of plan deficits in the future. After extensive consultation with external and internal experts, the Government came to the conclusion that it could not support more optimistic assumptions in fairness to taxpayers.

While the full partnership concept had considerable appeal to representatives of teachers and unionized public servants, in both cases they proposed binding arbitration as a dispute resolution mechanism for all pension-related issues. The two plans currently have assets of about $21 billion; nearly $15 billion in the combined teachers' plan and over $6 billion in the combined public service plan. The Government concluded it would not be fiscally responsible to allow a non-accountable third party to decide matters involving sums of this magnitude. Instead, the Government proposed a neutral chairperson, jointly selected by both parties, for the arm's length board, who would vote only if the board was deadlocked. For benefits and contribution rates, the Government offered negotiability with the option of mediation.

Another difficulty, relating to risk-reward sharing, was that some representatives of plan members wanted their membership to share in any future surpluses, but were concerned about future deficits being shared. The Government proposed some special measures to cushion the impact of a deficit situation on plan members. For example, the additional contributions required could be limited to a maximum amount or percentage of salary. Within limits, the Government would pay the remainder to the pension fund with these "advances" being re-paid with interest by plan members. If the deficit increased further, or persisted for a lengthy period, plan members would increase contributions or have their benefits reduced.

The Treasurer announced in January, 1989 that despite the lack of agreement between the Government and representatives of plan members, the financial difficulties necessitated that work begin to effect the restructuring. Discussions and other exchanges of views with representatives of plan members have continued in the interim.

Plan Governance Options

Three general options for managing the teachers' and public service pension funds are:

- full partnership and joint trusteeship;
- a member-run arrangement; or
- Government sponsorship.

Full Partnership and Joint Trusteeship

This arrangement entails a sharing of surpluses and deficits, with some temporary Government assistance available to alleviate the impact of a large deficit on individuals. Government and plan members would be equally represented on the arm's length board with full fiduciary responsibility for the investment of the fund and for benefit administration and adjudication. A mutually selected chairperson would vote only if the board became deadlocked. At specified intervals, negotiations on changes to the structure of benefits and contribution rates would take place. Either party would have recourse to a mediator.

Member-Run Arrangement

Under this option, all decisions would be made by plan member representatives. Plan members would have the right to future surpluses and the responsibility for future deficits. The Government's role would be to pay a specified matching contribution rate in respect of each public servant or teacher and to ensure a financially sound transition. After the transition to a member-run fund was complete, the pension fund would be subject only to normal regulatory controls.

Government Sponsorship

Without a new, mutually-agreed arrangement, the Government will remain sole sponsor on the understanding that future contribution rates fully fund future benefits. As such, it retains the right to any future surpluses and the responsibility to fund future deficits. It also will select a majority of the board.

The financial reforms apply to all options.

Financial Reforms

The Government will introduce legislation, with implementation targeted for January 1, 1990, containing the following reforms.

- For each of the teachers' and public service plans, the basic and indexation funds will be combined and fully funded.
- Responsibility for management of the funds and plan administration will be transferred to boards at arm's length from the Government.
- The composition of the boards will reflect the risk-reward sharing arrangement.
- The boards will be allowed to invest the funds in market securities, subject to the provisions of the Pension Benefits Act.
- Teachers' and public servants' contribution rates for future service will be increased by one percentage point.
- The Government will match the teachers' and public servants' contribution rates.

- Benefit improvements brought about by Ontario's recent pension reform will be made (examples include improved portability rights, the right to a pension after a shorter period of plan membership and locking-in of benefits, minimum employer contributions, market-related interest rates on refunds).
- The Government will fund the past deficits of the consolidated pension funds over 40 years as a constant percentage of payroll. The liabilities being funded will include the value of benefits currently being paid from the Consolidated Revenue Fund, and these benefits will be paid from the pension fund in the future.
- Surplus withdrawals will be permitted in accordance with the Pension Benefits Act after the initial deficits have been paid.
- While the Government remains plan sponsor, it will be permitted to reduce or suspend contributions if the plan has a surplus after the initial deficits have been paid.

These measures are being taken to enhance the security of benefits for all pension plan members.

Investment Policy

The legislation governing teachers' and public service pensions requires that all monies not required to pay benefits in a given year be invested in Province of Ontario debentures and deposits. Since 1971, the interest rates paid have been set based on market rates for Ontario and Ontario Hydro bonds.

The assets of the TSF are presently invested in fixed-rate fixed-term, non-marketable Province of Ontario debentures. The assets of the PSSF and the Superannuation Adjustment Funds (SAFs) are fixed-rate, fixed-term, non-marketable deposits in the CRF. Information on these plan investments is provided in Table 4.

Pension Fund Assets as at March 31, 1989 **Table 4**
(Preliminary Estimates)

	Outstanding Assets ($ million)	Average Yield (per cent)	Average Term to Maturity (years)
Teachers' Plan			
Teachers' Superannuation Fund	13,093	11.23	15.8
Teachers' Superannuation Adjustment Fund	1,427	11.54	8.7
Total	14,520	11.26	15.1
Public Service Plan			
Public Service Superannuation Fund	5,787	10.93	18.6
Public Service Superannuation Adjustment Fund	549	11.31	5.0
Total	6,336	10.97	17.4

Existing legislation will be amended to permit the pension funds to invest in market securities effective January 1, 1990. The Province will not be required to issue non-marketable debt to the pension funds after December 31, 1989.

Impact of Market Investment on Pension Funds

Diversified market investments have the potential to yield higher average returns without a significant increase in risk. While investment in equities carries the potential for a higher rate of return than fixed-income investments, it is also acknowledged to be accompanied by a higher level of risk. However, the level of risk for the portfolio as a whole can be moderated by diversification. Market investments also enable the funds to alter the mix and term to maturity of assets in light of changing economic circumstances. The current investments are mainly long-term and cannot be sold before they mature.

A number of observers have noted that the real (after inflation) returns of a diversified pension fund are less likely to be affected by inflation than one consisting entirely of long-term fixed-income securities. This is particularly important for a pension plan which is fully indexed.

Impact on Ontario's Sources and Costs of Financing

In general, the studies have concluded that Ontario could borrow more inexpensively in public markets than from public sector pension funds and, as a result, considerable savings in public debt interest are possible. The cost of borrowing from pension funds in recent years has exceeded public market rates, and the amount of borrowing, as required by legislation, has recently been greater than the Government's needs.

Public borrowing would provide the Province with flexibility in timing, term to maturity and choice of market. In the long run, increased borrowing in public markets would make Ontario debentures more attractive to investors because the debentures could be bought and sold more easily.

Transition to Market Investment

The deposits of the PSSF and the SAFs will be converted to debentures of the same amount and bearing similar terms and conditions as the deposits. In order to combine the basic and the indexation funds, the debentures of the TSAF will be transferred into the TSF while the debentures of the PSSAF will be transferred into the PSSF. As of January 1, 1990, the funds will be free to invest their net cash flow in market investments, provided the legislation has been enacted. Net cash flow consists of contributions, interest, maturing debentures and special payments in respect of the past deficits, less benefits paid and administrative costs.

Estimates of the net cash flow available for investment in the next five years are set out in Table 5.

Pension Funds' Estimated Net Cash Flow for Investment Purposes **Table 5**
($ billion)

	Teachers' Plan	Public Service Plan
1990	2.6	0.9
1991	2.9	1.0
1992	3.7	1.1
1993	3.7	1.3
1994	3.8	1.3

Discussions on the transition plan will be held with the boards of the new funds and the representatives of plan members.

Setting the Investment Return Target

Pension and investment experts generally agree that the asset mix decision is the most important factor in determining the rate of investment return and the corresponding level of risk.

As a general principle, the Government is willing to accept a moderate degree of risk comparable to that currently being assumed by most private sector pension funds. A real (after inflation) rate of return target of 3.5 per cent was selected for the purpose of costing the plans. Given the current investment policy of the teachers' and public service plans, this would mean adding equities, short- and long-term market fixed-income securities and other investments, including real estate, to the current portfolio.

Research done for the Rowan Task Force report suggested that "the most appropriate implementation strategy is a middle course in which existing non-marketable bonds remain in the investment portfolios of the public sector employee pension funds until they mature, but new monies are invested in market investments." The Rowan report, and other sources, caution that the transition to equities should be gradual because of the need to build up expertise in this area.

Responsibilities of New Arm's Length Boards

Responsibility for the management of the funds, as well as plan administration and benefit adjudication, will be transferred to new boards at arm's length from the Government. Representation on the boards will be related to the risk/reward sharing relationship. Given that the Government will remain plan sponsor for now in the absence of a full partnership agreement, a majority will be selected by the Government.

Currently, the Teachers' Superannuation Commission is responsible for plan administration as it relates to teachers. In the case of the public service plan, staff of the Ministry of Government Services and the Public Service Superannuation Board are now responsible for these matters. Both functions are essential and will continue. Interim arrangements may be necessary to ensure a smooth transfer of responsibility to the new boards. Equitable treatment of the employees involved of course will be a priority.

Past Deficits

Estimates of the past deficits for the consolidated pension funds were done using data as of December 31, 1987, and projected to December 31, 1989 to reflect the target implementation date. These projections were made by taking into account the interest on the outstanding amount and benefits paid in the interim. Tables 6 and 7 show the estimates for the teachers' and public service plans, respectively.

Teachers' Pension Plan Valuation **Table 6**
($ billion)

As of December 31, 1987:	
Total Assets	22.3
Total Liabilities	26.2
Past Deficit	3.9
Projected to December 31, 1989:	
Past Deficit	4.0

Note: The principal economic assumptions used in the valuations assume nominal interest rates of 8.0 per cent streamed down over five years, from a rate of over 11 per cent in 1989, nominal salary increases of 5.5 per cent and inflation of 4.5 per cent. Seniority and promotional increases are in addition to the assumed increase in salary levels. These assumptions are used to value the plan over the long term and may not be consistent with current economic trends or conditions.

The current assets of the plan as of March 31, 1989 are presented in Table 4. The assets shown in this table for actuarial purposes differ from current assets in that they include the value as at December 31, 1987 of future contributions plus investment earnings. Liabilities include benefits which will be earned by current active members in the future and benefits which will be paid to deferred and retired members in the future.

Public Service Pension Plan Valuation **Table 7**
($ billion)

As of December 31, 1987:	
Total Assets	8.7
Total Liabilities	10.3
Past Deficit	1.6
Projected to December 31, 1989:	
Past Deficit	1.7

Note: The principal economic assumptions used in the valuations assume nominal interest rates of 8.0 per cent streamed down over five years, from a rate of over 11 per cent in 1989, nominal salary increases of 5.5 per cent and inflation of 4.5 per cent. Seniority and promotional increases are in addition to the assumed increase in salary levels. These assumptions are used to value the plan over the long term and may not be consistent with current economic trends or conditions.

The current assets of the plan as of March 31, 1989 are presented in Table 4. The assets shown in this table for actuarial purposes differ from current assets in that they include the value as at December 31, 1987 of future contributions plus investment earnings. Liabilities include benefits which will be earned by current active members in the future and benefits which will be paid to deferred and retired members in the future.

Financial Reporting and Accounting Practices

The proposed financial reforms will have a significant impact on government accounting and financial statements. In particular, three aspects of the proposed legislation will cause significant reductions in the amounts available for borrowing and reported as pension fund deposits:

- combining the basic and indexation funds;
- replacing PSSF and SAF deposits with debentures; and
- permitting the plans to invest in market securities.

The following summarizes the impact of these changes on the Province's financial reporting and accounting practices:

- the pension fund deposit category will be eliminated;
- the PSSF and PSSAF deposits, converted into debentures, will be reported as debenture liabilities; and
- the TSF debentures will be combined with those corresponding to the TSAF deposits and reported as debenture liabilities.

Table 8 shows the estimated financial impact of the legislation in 1989-90 and 1990-91.

Impact of Reform on Statement of Financial Transactions **Table 8**
($ million)

	1989-90	1990-91
Revenue	-	-
Expenditure	28	95
Deficit	28	95
Financing		
Reduction in borrowing from Teachers' Superannuation Fund*	675	1,765
Reduction in pension fund deposits*	232	1,116
Reduction in financing sources from pension funds	907	2,881

* After December 31, 1989, the combined teachers' and public service pension funds will be permitted to invest in market securities and will no longer be a mandatory source of financing to Ontario. Accordingly, the Province will meet its financing requirements from other sources, such as public markets, Canada Pension Plan, Province of Ontario Savings Office or liquid reserves.

Conclusion

The financial problems of the teachers' and public service pension plans are clear: plan liabilities exceed plan assets by billions of dollars. Unless corrective action is taken, the plan deficits will become even larger.

The Government's objectives are to ensure that pension benefits are securely funded and that pension costs are not simply transferred to future generations of plan members and taxpayers. The Government therefore has agreed to assume the past deficits if future benefits are fully funded.

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